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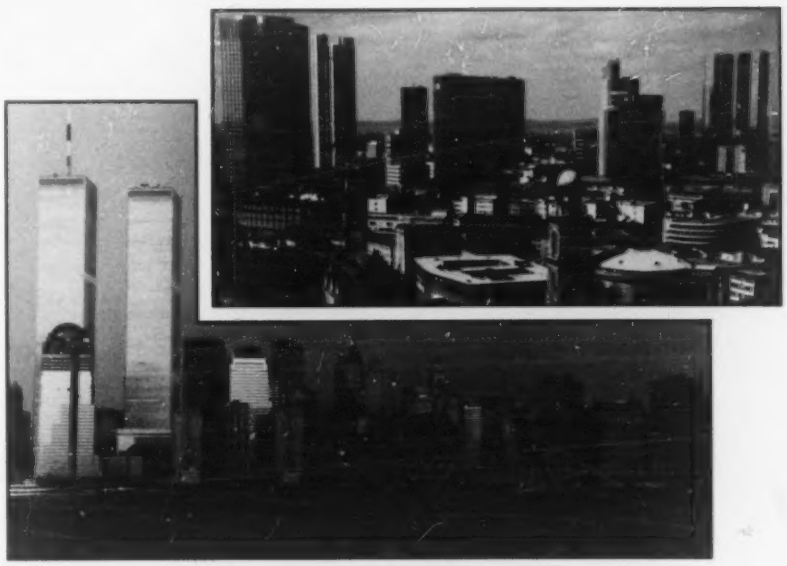
Seventeenth Annual Edition

UNITED STATES-GERMAN ECONOMIC YEARBOOK 1991

Deutsch-Amerikanisches
Wirtschaftsjahrbuch



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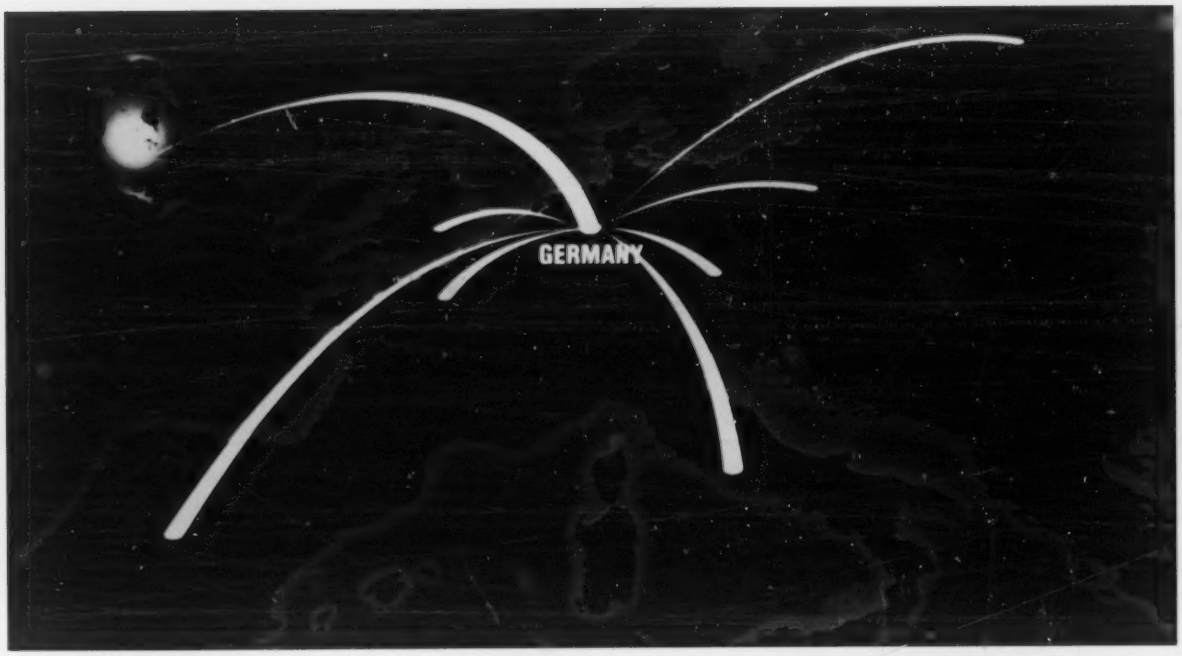

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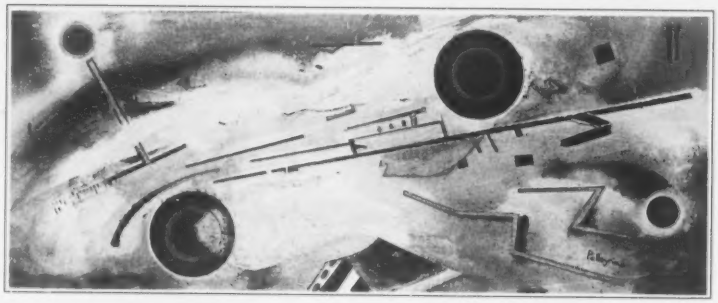

Courage to go new ways characterizes successful firms. Rationality is called for, but intuition is also repeatedly demanded. In this way Haniel has systematically established itself in new areas of business. "Haniel today" means: marketing, logistics, systems, quality and service. These are factors of central importance to success. Thanks to a decentralized organization with freedom for enterprising manoeuvre, short channels of communication and prompt decisions, Haniel was able to involve itself early and extensively with investments topping DM 800 Mio. and 4.000 jobs in the new Federal German States.

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C'est le courage de s'aventurer sur de nouvelles voies qui caractérise les entreprises florissantes. Si le rationalisme est une clé succès, l'intuition en est une autre. C'est pourquoi Haniel s'est systématiquement tourné vers de nouveaux débouchés. «Haniel aujourd'hui» cela signifie: marketing, logistique, systèmes, qualité et service – les principaux facteurs de réussite. Grâce à son organisation décentralisée, qui laisse suffisamment de liberté aux initiatives, grâce à une communication efficace et grâce à ses rapides prises de décision, Haniel a su s'engager à temps et en force avec des investissements d'un montant supérieur à DM 800 Mio. et un effectif de plus de 4.000 personnes dans les Nouveaux Länder.

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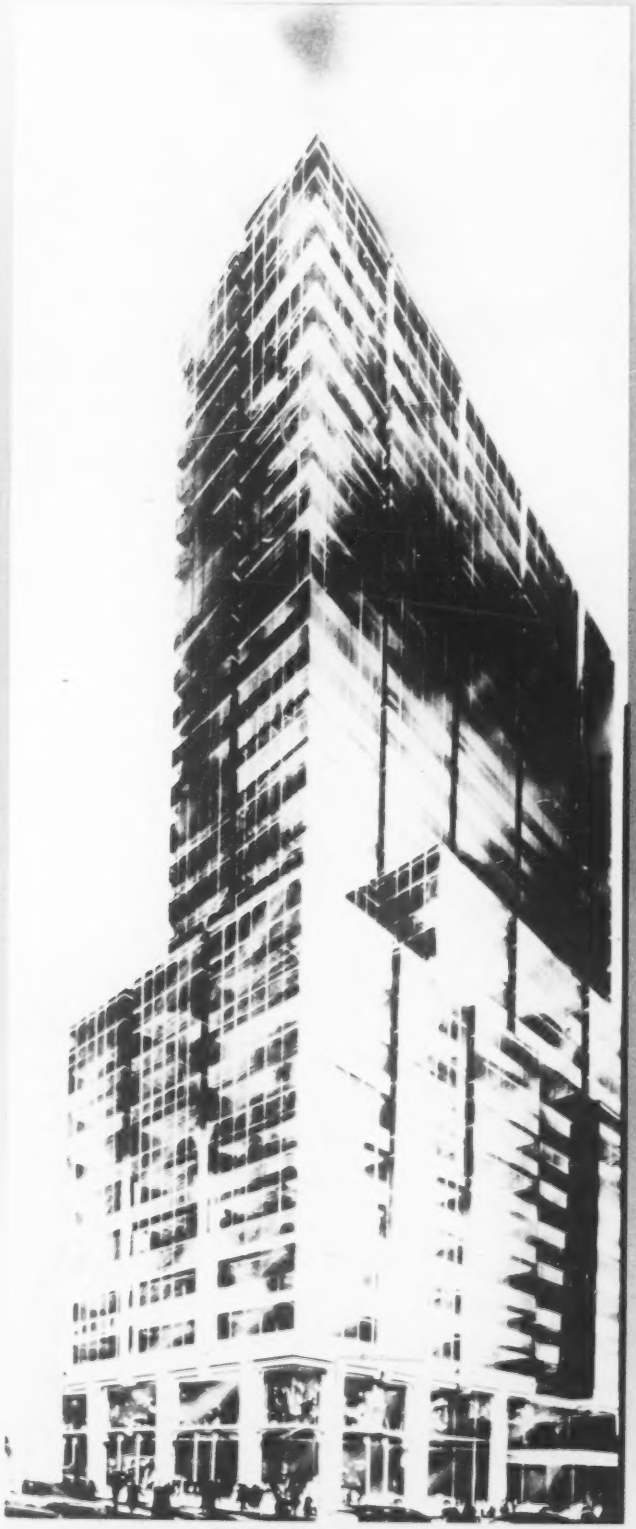

565 Fifth Avenue

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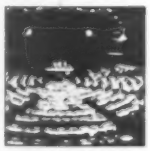

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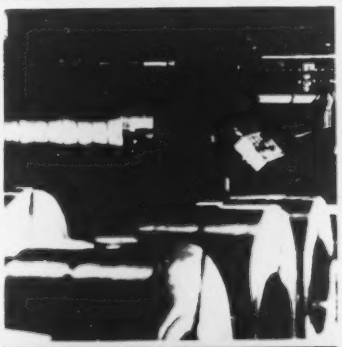

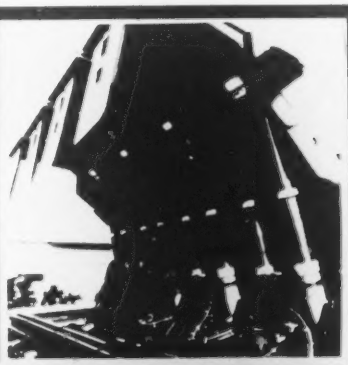

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Preface

If the year just ended can be said to have had a hallmark, it was one of mixed messages and paradox. For instance, while the U.S. economy appeared to be barely limping along and consumer confidence was plunging to its lowest level in a decade, the Dow Jones industrial average finished the year with a surge to a record high on December 31.

Amid predictions of chaos and economic collapse in the now defunct Soviet Union, the tricolor of Peter the Great replaced the hammer and sickle over the Kremlin. Finally, in Central Europe, the growing problems and expense of restructuring the moribund economy of the former GDR stood in stark contrast to a steady rise in confidence among the populace of eastern Germany as reflected in periodic surveys conducted throughout the year.

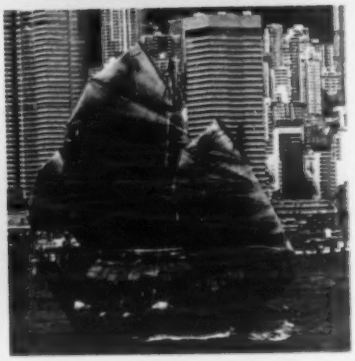
We have placed considerable emphasis in this edition of the Yearbook on key aspects of the effort to rebuild and restructure the economy of eastern Germany. I hope that those articles will provide useful information to our American readers in assessing the unfolding business opportunities in that region. This time next year, the Single European Market will be a reality, and we have presented the views of five leading German and American executives on some of the economic implications of this historic development. The Single European Market will, of course, experience considerable evolution and adaptation in its formative years and we will continue to present coverage and analysis in future editions.

At this time, I want to take the opportunity to express my appreciation to the distinguished American and German authors who have given so ably and generously of their time. They aptly reflect the openness and creativity that infuse the U.S.-German economic relationship with its unique character and vigor.

Werner Walbröl
President
German American Chamber of Commerce

January 1992

The spirit of commitment knows no limits.



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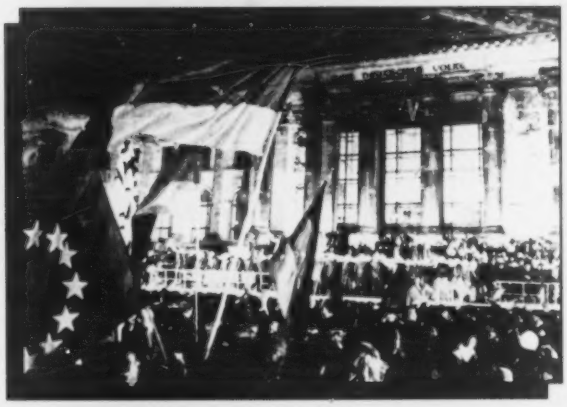

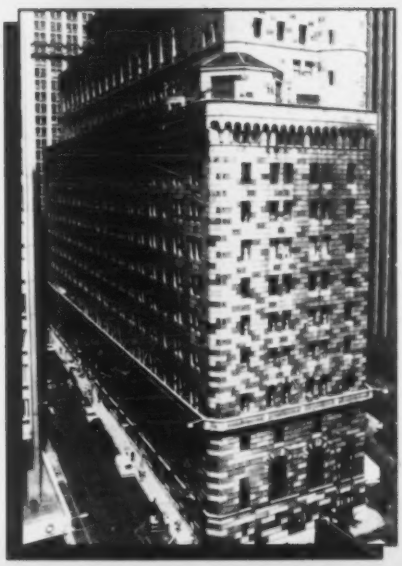

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National Competitiveness and the American Standard of Living

Alan Greenspan
Chairman
Board of Governors of the
Federal Reserve System

The concept of competitiveness can mean different things to different people, depending on their particular perspective, so let me begin by defining terms. At the level of the individual firm, competitiveness is, of course, gauged by bottomline performance in the market. Competitive firms are those whose costs of production lie sufficiently below the market price of the output they sell that they earn a rate of return on equity at or above the market cost of capital. Competitive firms survive, increase their market share, and prosper; uncompetitive firms do not. A similar concept of competitiveness is often applied at the national level as well. The country's international performance is frequently monitored by such measures as the shares of its exports in world markets, movements in its trade balance, and movements in its aggregate price level and production costs relative to those of other countries.

At the national level, however, such conventional measures of competitiveness lose much of their meaning, or at best, are difficult to interpret. In today's open world trading system, exchange rates tend to adjust over time to ensure that the country's international accounts return to balance. For example, if overall production costs rose in the United States, everything else equal, the dollar would depreciate against other currencies, restoring the price and profit competitiveness of U.S. firms, thereby enabling them to maintain their sales abroad.

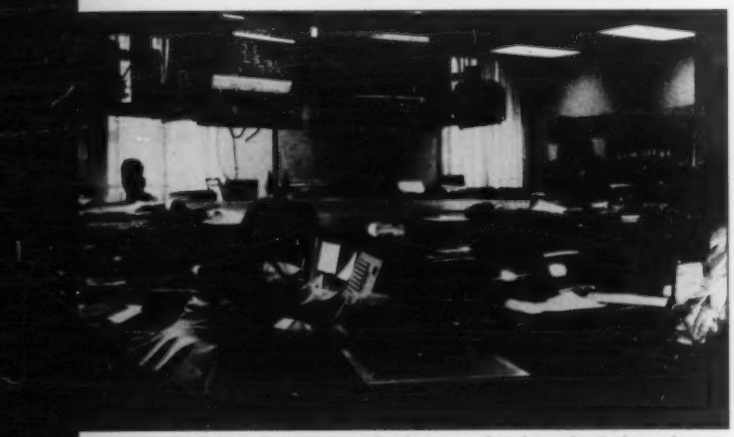
However, a gain in price competitiveness associated with a depreciation of the dollar, while good for U.S. firms that compete internationally, could actually worsen overall economic well-being in the United States. A lower dollar means that we must sell more of our output to buy a given amount of foreign-produced goods and services.

The Ultimate Test of Competitiveness

Our competitiveness as a nation, therefore, goes beyond movements in the shares of our exports in world markets and the international price competitiveness of our firms and industries. The ultimate test of the country's competitiveness is what is happening to the standard of living of our citizens over time.

Over the past four decades, U.S. real — or inflation-adjusted — per capita national income has more than doubled. The United States continues to enjoy the highest standard of living among major industrial countries. In 1990, U.S. real per capita income was on the order of 30 percent above that in both Japan and Germany, our major competitors among industrial countries. We enjoy a similar advantage in total manufacturing productivity.

It is also clear, however, that the gap between the United States and other major industrial countries has



The Federal Reserve Bank of New York, where the Fed conducts its foreign exchange operations.

narrowed substantially over the post-war period, as per capita income and productivity have grown substantially faster abroad. In some areas, individual firms and even entire industries in other countries may well have caught up to and passed their U.S. counterparts. Does this narrowing of the productivity gap mean we are a nation in decline? Not in and of itself.

To a considerable extent, the narrowing of the gap has been inevitable, reflecting economic forces that are shrinking the globe, providing a strong stimulus to international trade, and making countries better informed about each others' products and production techniques. It is clearly easier to grow fast by catching up, using techniques and processes that have already been developed, than by breaking new ground through technological innovation.

Factors of Economic Convergence

One important factor that has contributed to this process of economic convergence, as well as to the rapid expansion of world trade in the post-World War II period is what I have broadly referred to elsewhere as the *downsizing of economic output*. Goods now derive a smaller proportion of their value from the volume of physical matter embodied in them. Advances in design and engineering, the use of lighter but stronger materials, and the availability of smaller but more reliable electronic components all have contributed to the downsizing of output. The increasing importance of conceptual content in output reflects in part the explosive growth of information gathering and processing, which has greatly extended our analytical capabilities of substituting ideas for physical volume.

The downsizing of output, combined with significant advances in intercontinental transportation and communication, has facilitated the rapid growth in international trade we have seen in recent decades. Moreover, information about new products and new technologies spreads further and much more rapidly today than it did just a few years ago. As information processing capabilities increase in all countries, technological and productivity gaps likely will continue to narrow further.

While other countries have benefitted greatly from technology that has been developed first in the United States, U.S. residents, too, have benefitted significantly from the rapid growth of productivity abroad. As goods and services produced abroad improve in quality and/or decline in price, opportunities for international trade are enhanced, and U.S. consumers who import foreign goods and services benefit directly.

The rapid growth of international trade over the past four decades has enhanced our standard of living more generally in several respects. One is the well known gains from specialization and exchange, commonly referred to as the law of comparative advantage. Just as individuals within a country gain by devoting their energies to what they do relatively well and exchanging their output for the output of others, so do entire countries gain through specialization and exchange. By specializing in industries where they are relatively efficient producers, and trading for products in which they are relatively inefficient, the citizens of all countries increase the total amount of goods and services available for their own consumption.

Trade as a Stimulus to Productivity

Another source of gains from trade is the stimulus to the efficiency of domestic production that is provided by international competition. For example, increases in the quality of U.S. automotive products since the early 1970s were stimulated in part by the competition of Japanese and European automakers.

Although the implications for workers in the domestic automobile industry were not always positive, those for consumers and their standard of living were definitely so. In addition, the rapid expansion of U.S. exports over the past several years owes much to a period of capacity enhancements and productivity improvements by U.S. manufacturing firms earlier in the 1980s when the dollar was strong and foreign competition was intense.

The ultimate test of the country's competitiveness is what is happening to the standard of living of our citizens over time.

In a dynamic competitive world economy, with new products, technologies, and production processes continually coming on stream, some firms and industries will always be on the decline as others are on the rise. Protectionist pressures often arise when foreign competition intensifies for a domestic industry that is in decline. The ailing industry has a strong incentive to seek protection from foreign competition; the losses of those put out of business and out of jobs are real. However, the appropriate policy response to an industry that is losing ground to foreign competition is not to erect barriers to imports, but rather to facilitate the redirection of workers who do lose their jobs to more productive employment opportunities elsewhere. If the protectionist

route is followed, newer, more efficient industries will have less scope to expand, and overall output and economic welfare will suffer.

It is noteworthy that despite the alleged weakening of our international competitive position during the 1980s, it can scarcely be argued that jobs have been lost, on balance. In fact, the unemployment rate by the latter part of the 1980s, at below 5.5 percent, was the lowest level since the early 1970s.

Moreover, the view that employment growth has been concentrated in less productive areas more recently is not supported by the data. Indeed, real wages and salaries per worker grew almost as fast during the 1980s as they did during the 1970s.

Protectionism Hinders National Productivity

It is, of course, prudent to be vigilant against unfair trade practices or excessive concentration of market power on the part of foreign firms. Nevertheless, the current level of protection in the United States seems well in excess of the response that would be warranted by the actual existence of unfair trade practices abroad. By some plausible estimates, the unilateral removal of quantitative restrictions now placed on U.S. imports of textiles, apparel, and various agricultural products would result in net gains to U.S. consumers amounting in the tens of billions of dollars. Moreover, the complete removal of existing foreign restrictions on U.S. exports probably would reduce our trade deficit by only modest amounts.

While the traditional impetus for protection has been the loss of domestic market share and jobs to foreign competition, a new school of thought argues that a case can be made for government intervention in the form of promotion of technological change and innovation in particular industries. Certain industries promise the possibility of high profits or above-average wages to employees because of increasing returns to scale in production, spill-over benefits to related industries, and barriers to market entry associated with high initial research and development costs. As the argument goes, other countries are beating us to the punch in such high value-added areas because their governments have heavily subsidized initial R&D expenditures.

This argument has some appeal, but I would caution against adopting a policy of targeting particular industries for special support from the government, for several reasons. First, if the potential returns to specific industries are really as high as promised, in many cases private investment could be expected to respond. Second, it is not at all clear that the government is in any better position than the private market to identify those particular firms or industries that are most deserving of R&D support. Third, even if the spillovers were significant and obvious enough in a given case to warrant government subsidies, making an exception in one case would risk the spread of government intervention to less clear-cut cases.

I have suggested that the narrowing of the gap between U.S. productivity and that of our major trading partners, to a considerable extent, has been both inevitable and beneficial. Nevertheless, more could be done to promote U.S. productivity growth in the United States.

Question of Government Involvement

Some observers have suggested that a case can be made for government support for basic research and development, that is, support not directed at specific products or industries. However, it is important that government involvement in this area be implemented in such a way that it reinforces but does not supplant

There is no question that the decline in the U.S. national saving rate has been costly, and that the recovery of that saving rate should be a national priority.

private market decisions. Much the same could be said for additional government expenditures on education and training.

More could be done to remove outmoded or unnecessary government restrictions on U.S. private industry. In areas where high value added and spillovers are present, the gains in terms of our standard of living could be significant. To take an example, legislation is now pending to put U.S. banks on a more equal footing with foreign banks by allowing them to provide a more complete range of financial services to their customers. In the absence of such banking reform, we could see a decline in the prominence of the United States as an international financial center, and a potential loss of highly skilled jobs in financial services and allied industries.

Free Trade Promotes Productivity

Because the arguments for free trade are so compelling, one sure way to enhance the prospects for our national standard of living is to continue to work to remove existing barriers to trade globally. Indeed, the primary thrust of U.S. trade policy has been and must continue to be to strive for multilateral reduction of trade restrictions under the auspices of the GATT. I attach great importance to bringing the current Uruguay round negotiations to a successful conclusion. Much progress already has been made in the talks, and prospects may have improved for ironing out remaining nettlesome areas, particularly in agriculture. Any significant step that could be taken toward tearing down the extremely inefficient and costly worldwide system of government subsidies to agriculture would be a breakthrough that would have many benefits.

The recent extension of the fast-track authority was an important step both for the GATT talks, and for the establishment of a North American Free Trade Agreement. With respect to our impending negotiations with Mexico, predictably, some U.S. industries may be hurt by increased competition from that country. But all of the comprehensive studies that I have seen on the subject

indicate that the increase in trade with Mexico that will follow a removal of existing trade barriers, on the whole, will result in a net gain in both jobs and incomes for U.S. residents, as well as for the residents of Mexico.

Perhaps the most important means at the government's disposal to improve U.S. international competitiveness and our standard of living in the long run is to pursue sound macroeconomic policies. It goes without saying that a stable financial system and steady progress toward price stability will tend to minimize risk and enhance the attractiveness of investing in the United States — both by U.S. investors and by those from abroad. Policies that contribute to low inflation among our major trading partners at the same time will lead to more stable exchange rates and contribute to further sustained growth of international trade and, accordingly, domestic real incomes.

Importance of National Saving Rate

On the fiscal side, the connection between movements in our budget deficits and our external performance, within the equation between national saving and investment, was confirmed by events during the 1980s. The widening of the federal budget deficit, along with a downtrend in the U.S. private saving rate, contributed to an increase in both real interest rates and the dollar's exchange rate during the first half of the 1980s. The stronger dollar and associated decline in the price competitiveness of U.S. firms, in turn, contributed to a sharp widening of the trade deficit and declines in the world market shares of U.S. exports. In the second half of the 1980s, the budget deficit turned around, interest rates and the dollar fell, the U.S. trade deficit began to narrow, and the world market shares of U.S. exports recovered strongly.

Despite the swing in the U.S. external position during the 1980s, U.S. investment continued to show reasonably strong growth, and productivity in manufacturing advanced at an above average annual rate of 3.5 percent. However, given the low and declining U.S. saving rate, the growth in investment was necessarily at the expense of future consumption by U.S. residents. The shortfall of U.S. domestic saving was made up by a substantial net inflow of capital from abroad. All told, the increase in our net debt to foreigners over the past 10 years amounted to something on the order of $750 billion. Servicing that increased net debt over the years ahead will mean that the rate of consumption in the United States relative to our output will be lower than it would otherwise have been.

There is no question that the decline in the U.S. national saving rate has been costly, and that the recovery of that saving rate should be a national priority. At a minimum, we should ensure that progress toward eliminating the federal budget deficit over the next five years, as envisioned in last year's budget agreement, is achieved. □

June 18, 1991

Überblick

Amerikas internationale Wettbewerbsfähigkeitt und sein Lebensstandard

Unsere Wettbewerbsfähigkeit als Nation reicht weiter als die fluktuierenden Anteile unserer Exporte auf dem Weltmarkt und die internationale Preiswettbewerbsfähigkeit unserer Industrien und Unternehmen. Der entscheidende Beweis ist jedoch die Entwicklung des Lebensstandards unserer Bürger.

Während der letzten vier Jahrzehnte hat sich Amerikas Real- oder der Inflation angepaßtes Pro-Kopf-Einkommen mehr als verdoppelt. Die Vereinigten Staaten haben innerhalb der Industrienationen noch immer den höchsten Lebensstandard. 1990 lag das Realeinkommen um 30 Prozentt höher als bei unseren größten Konkurrenten innerhalb der Industrienationen, nämlich Japan und Deutschland. Ähnlich positiv die Produktivität bei der herstellenden Industrie.

Allerdings hat sich die Kluft zwischen den USA und anderer führender Industrienationen seit der Nachkriegszeit wesentlich verkleinert, da das Pro-Kopf-Einkommen und die Produktivität in Übersee vergleichsweise schneller angestiegen sind.

Die Vorteile des freien Handels sind so überzeugend, daß es sich als sicherer Weg darbietet, die Bemühungen nach einem weiteren globalen Abbau der Handelsschranken zu intensivieren, um somit die Grundlage zu schaffen, unseren Lebensstandard anzuheben. Bisher konzentrierte sich die amerikanische Handelspolitik im wesentlichen auf einen multilateralen Abbau von Handelsbeschränkungen im Rahmen der GATT-Verhandlungen und muß das auch weiter tun. Ich halte es von großer Wichtigkeit, die derzeitigen Verhandlungen mit Uruguay zu einem erfolgreichen Ende zu bringen.

Zu den vermutlich wichtigsten Maßnahmen, die der Regierung zur Verfügung stehen, um die internationale Wettbewerbsfähigkeit Amerikas zu vergrößern und gleichzeitig unseren Lebensstandard auf lange Sicht anzuheben, gehört das Bestreben nach einer gesunden makroökonomischen Wirtschaftspolitik. Selbstverständlich tendieren ein stabiles Finanzsystem und ein ständiges Bestreben nach Preisstabilität dazu, die Risiken auf ein Minimum zu beschränken und die USA als Investititionsland attraktiver zu machen.

Trotz der Verschiebung der außenwirtschaftlichen Bilanzen in den USA während der 80er Jahre, hat sich die Investitionstätigkeit verhältnismäßig gut behauptet; so zeigte die Produktivität im herstellenden Bereich eine überdurchschnittlich hohe Zuwachsrate von jährlich 3,5 Prozent. In Anbetracht der niedrigen Sparquoten ging der Investitionszuwachs zwangsläufig auf Kosten künftiger Verbraucherausgaben. Was bei den Ersparnissen fehlte, konnte ein beträchtlicher Nettokapitalzufluß aus dem Ausland wettmachen.

Zweifellos ist der Rückgang der Sparquote in den USA eine teure Angelegenheit, einer schnellen Erhöhung der Ersparnisse sollte größte Priorität zugemessen werden. □

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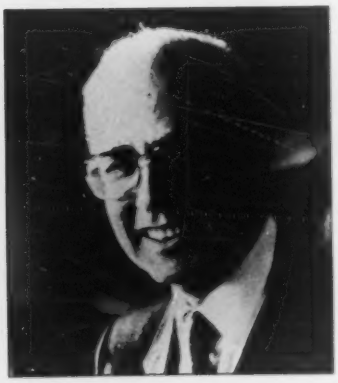
Die Errichtung einer dauerhaften europäischen Wirtschafts- und Währungsunion

The Establishment of a Durable Economic and Monetary Union in Europe



Helmut Schlesinger
President
Deutsche Bundesbank

The movement towards increased economic convergence in Europe has definitely made headway in the last few years. A substantial degree of economic convergence can be found in those countries which have adhered to the narrow band of the EMS exchange rate mechanism, but most of the others have also opted for more discipline in their monetary and fiscal policies. However, there are still considerable deficiencies with respect to convergence among the EC countries.

Economic integration in Europe has made good progress over the years, and this progress is not only due to monetary regulations, especially to those in the EMS. The widely agreed strategy for further integration is that of the step-by-step creation of EMU. Now the intergovernmental conference on Economic and Monetary Union has reached an important stage, and it seems possible that agreement may be reached by the end of this year.

Before going into details, let us recapitulate: what are the driving forces that have led to more integration in the EC in the last few years?

Major determinants of the progress made in Europe are the liberalization of national markets and the plan to create a single market for goods, services and labor by 1993. These are important prerequisites of further steps towards the creation of a monetary union, too. Creating a monetary union alone would not be very helpful unless an internal market for goods and services, including financial services, already existed.

A World View

A second aspect is important: the liberalization of markets cannot be restricted to the EC. National markets have to be opened up worldwide. According to the latest report of the World Bank, countries in the Third

The widely agreed strategy for further integration is that of the step-by-step creation of EMU.

World, too, are now much more in favor of market-oriented development strategies than they used to be. This is true of European countries too. The EC must be careful to avoid any tendency to be a *fortress Europe*. It would be paradoxical to reap the fruits of increased integration only in the EC and not in concert with other parts of the world as well.

Progress has already been made with respect to the liberalization of the money and capital markets. The first stage of the European Economic and Monetary Union, in which we are living now, envisages fully liberalized money and capital markets in Europe. *Escape clauses*

Frankfurt/Main, Germany's banking center and the seat of the Bundesbank.

providing for exemptions still exist for some countries. They should be abolished irrevocably at the end of the first stage, if not before.

Along the road towards the full liberalization of the money and capital markets, it was helpful that a high degree of exchange rate stability had been achieved in Europe. The EMS was not stabilized until major member states gave monetary stability at home the priority necessary to ensure the satisfactory functioning of the system. Especially during the last five years, the *hard core* countries of the EMS have come closer to achieving the original objective of creating a zone of internal and external monetary stability. On account of its record of stability, the D-Mark has become the focal point of the European Monetary System, and has had to accept the role of a leading currency along the EC countries' road towards lower inflation.

. . . the progress towards integration in western Europe was based on the opening-up of national markets and on widespread efforts to achieve price stability at home.

While we are speaking about convergence, we should not fail to question developments in the area of fiscal policy. There the current results are not as good as they have been during the last few years. The tendency to reduce fiscal deficits has not continued, there has even been a certain reverse movement.

Let me sum up: the progress towards integration in western Europe was based on the opening-up of national markets and on widespread efforts to achieve price stability at home. Certainly a better performance on the part of fiscal policy would have intensified this process.

First Priority is Price Stability

Let us have a look at the implications of these main conclusions for the further steps which are on the mind of the EC Governments. Ultimately these steps should lead to a real Economic and Monetary Union.

The first conclusion is that price stability must be the primary objective of a future European Central Bank System. That has been stated in the Delors Report and the Draft Statute of the European System of Central Banks, and the EC governments have agreed to this principle. The currency in an ECBS must be as good as, or better than, the most stable national currency in the EC, said President Delors at the last informal meeting of Finance Ministers and Central Bank Governors. This is a general formula, which Federal Chancellor Kohl used with respect to our own country when saying: "The D-Mark can only be exchanged for a European currency if the latter is as stable as the D-Mark."

The principal target is clear, the question is: how to realize it? How can we be sure that a common newly created paper money for 345 million Europeans can keep its purchasing power constant for a long period of time? This is the promise which must be given. Three elements have been agreed to:

1. The decision-making bodies for monetary policy must be obliged to make price stability their priority task. They cannot be forced to pursue other targets - for instance exchange rate targets - if that would bring them into conflict with the pursuit of the overriding goal of price stability.

2. The draft statute states clearly that the European Central Bank, national central banks and the members of their respective decision-making bodies, in using their monetary policy instruments, must be independent of instructions from their national authorities or from Community bodies.

3. The possibility must be ruled out that the public sector obtains any kind of direct financing from the European Central Bank and national central banks. Recourse to central bank credit could undermine the system's ability to achieve its primary objective.

Autonomy for Central Banks

It would be consistent with these demands if all national central banks within the EC were in the near future placed in a position in which they were given full autonomy for their monetary policy and were enabled to pursue the goal of price stability independently of instructions from their governments. As yet this is not universally agreed.

Some countries are prepared to give their central bank full autonomy only after the European Central Bank has been established. I think *independence* should be practised beforehand. In particular, the government bodies — which have admittedly used their right to give instructions to varying degrees — should prove that they can refrain completely from giving orders to their central banks. Portugal and Italy have already taken steps to make their central banks more independent, a move

. . . not all partner countries have been interpreting the autonomy of the envisaged European Central Bank in the same way.

which is very welcome.

The recent discussions within the EC have shown that hitherto not all partner countries have been interpreting the autonomy of the envisaged European Central Bank in the same way. Some of our partners have thought of giving government bodies like the Ecofin Council the right to issue quidelines to the future EC Central Bank.

Certainly, monetary policy does not take place in a policy vacuum; decision makers have to take account of economic policy targets such as economic growth, employment and the exchange rate. But it must be clear that these are not the primary target of a central bank, but targets for which a central bank does not have the right instruments.

Government influence on the central bank often involves the temptation to use monetary policy primarily for those objectives, which are not the primary targets of a central bank. International experience (particularly in the Seventies) has shown that monetary policy should not be used as the primary instrument of anticyclical policy, because usually this ends up after a while in more inflation, less growth and more unemployment.

Answering Objections

Moreover, some countries view the independence of members of the European Central Bank Council and of national Central Bank Governors as constituting too far-reaching a relinquishment of democratic control over a governmental institution. This legitimate fear can be dispelled.

On the one hand, the appointment of members of the decision-making bodies is to remain the exclusive responsibility of individual national governments (who will, however, have to agree to long periods of office for those who are appointed). On the other hand, the activities of *independent* central banks are constantly exposed to direct criticism from the general public, the media and

Major barriers that exist to date against excessive deficit financing under national budgets, such as sanctions via national exchange rates and national interest rates, will be eliminated in a monetary union.

political authorities; the central bank must satisfy the need for information without any restrictions, and must itself seek to explain its policies and justify its independence - above all through the success of its policies.

Another vital issue on which views still differ fundamentally is that of responsibility for exchanqe rate policy. In particular, German experience under the former system of fixed exchange rates proves that monetary policy must be safeguarded from external constraints. It must therefore be guaranteed that a stability-oriented policy on the part of the central bank is not undermined by the exchange rate policy decisions of governments and EC bodies. Specifically, what is involved is that the central bank system must not be subject to exchange rate targets. Exchange rate policy targets given by government bodies restrict the room for manoeuvre of monetary policy or maybe are even counterproductive to it. Pursuing them would compel the central bank to invervene or to change interest rates.

It is not disputed that the decision as to the exchange rate regime (for instance: fixed or flexible exchange rates vis-à-vis third currencies) has to be taken by government bodies in consultation with the European Central Bank. But as far as exchange rate policy is concerned (such as the question of intervening in the exchange market or not, or of using interest rate policy primarily for influencing the exchange rate or not), this should be decided by the ECBS only.

Frankly speaking, among other countries there has so far been no strong support for this primarily German position. On the other hand, a recent public hearing in a committee of the German Bundestag has shown that the German position on this point is shared by nearly all political and social groups in our country.

Sovereignty vs Integration

The views of some member states still differ concerning the sovereignty of national fiscal policy in the final stage of EMU. What is involved is the fact, proven by past experience, that sustained monetary stability can only be achieved if fiscal policy is sound too. The German government expects suitably strict standards for member states' budget policies, as do a number of other partner countries. This would indisputably involve a certain loss of sovereignty.

Understandably, this is not easy to accept for all member states as, historically, budgetary sovereignty is one of the oldest rights of parliaments. But certain provisions in this respect are necessary supplements to the total loss of montary sovereignty, such as will automatically occur in an Economic and Monetary Union. Major barriers that exist to date against excessive deficit financing under national budgets, such as sanctions via national exchange rates and national interest rates, will be eliminated in a monetary union. The currency-wise consequences of individual countries' fiscal misbehavior

East Germans exchange their old currency for the deutschmark on July 1, 1990, the first day of monetary union.

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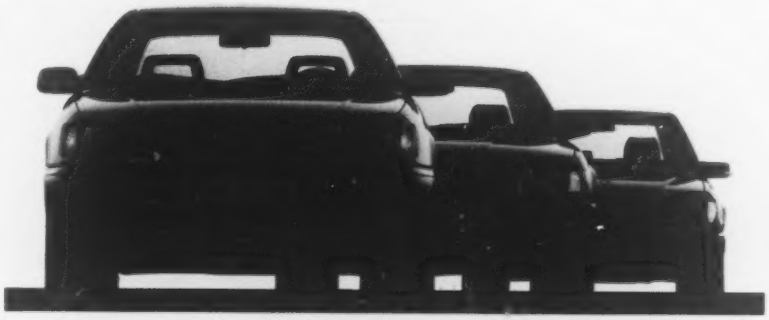

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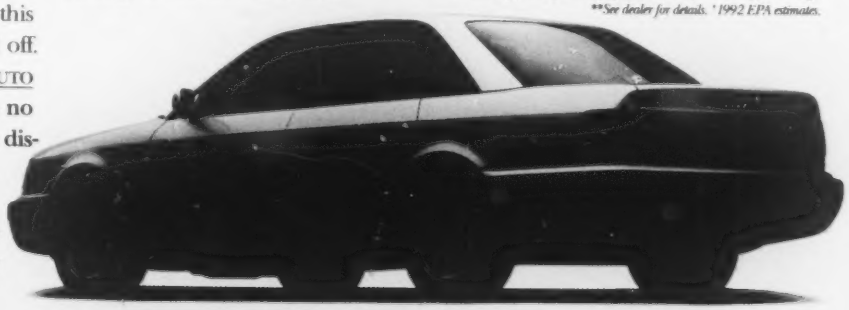
***See dealer for details. † 1992 EPA estimates.*



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would therefore have to be borne jointly by all partners.

Some partner countries query the basic principle that public sector budgets or other public entities should not be financed by the future European Central Bank System. They believe it to be desirable for the ECBS to provide government agencies with cash credit lines. In my view this would be an anachronism in an EC with fully developed and internationally open money and capital markets, as it is a point in our own central bank legislation which could be dropped easily. The Governor of the Banque de France, M. de Larosiere, has recently strongly supported inclusion in the arrangements governing the ECBS of the prohibition of public sector financing by the European Central Bank.

Three Stages of Monetary Integration

For purposes of promoting the process of European monetary integration, the British Government and others - for instance M. Balladur, the former French Minister of Finance — have advocated a genuine 13th currency as a driving force behind integration, which could progressively replace national currencies. Whatever the construction would be -– a hard ECU according to the British proposal or a currency of its own — the problem posed by a parallel currency still exists.

That is, how to safeguard it as a stability standard in its own right and in relation to national currencies. In the current governmental negotiations, the 13th currency solution is no longer a viable option. The official discussion is trying to find a bridging solution linking the current stage I to the later stage III by spelling out more clearly the elements of stage II. Today the elements of this interim period consist of:

1. Developing the Committee of EC Central Bank Governors gradually into a monetary institution; this means giving that body a legal basis and a more concrete definition of its tasks.

2. The main task would be to intensify the coordination of monetary policy and to develop the instruments of monetary policy which should be used in stage III.

3. There is the question of the extent to which there should be a common exchange rate policy (which is hard to have as long as national currencies are not of the same quality). Another point is whether all member governments are prepared to give full autonomy to their national central bank. So far this is not expected, and if it is not expected conclusions and recommendations can only be made in a consensus-finding way. There cannot be a voting procedure among dependent and independent Central Bank Governors.

. . . we are obliged to ensure that the D-Mark remains attractive internationally.

4. Further clarification is needed of the structure of the management of this *European Monetary Institute*. We think the chairman can be elected from among the twelve Central Bank Governors. Others think it should have a President and Vice President coming from outside; this would imply new staff, the setting-up of a bureaucratic organization, and presumably more room for influence on the part of politicians.

In any case, the framework for the second stage of EMU is developing in this direction and can lead to a workable solution. How long the second stage will last is an open question. Presumably it will be necessary in 1996 to examine whether the convergence between member countries permits entry into the 3rd stage. I am pleased to say that Europe is today enjoying something like a competition over the lowest rate of inflation, with the D-Mark being - at least for the moment - the pacemaker.

However, in view of the high level of international investment in D-Marks, and on account of the D-Mark's function as the second most important reserve currency, we are obliged to ensure that the D-Mark remains attractive internationally. A reduction of the upward movement of prices in Germany to about 2 % per annum is essential, and not only for domestic reasons; we also wish to contribute further to the establishment of a Europe which is oriented towards stability. I therefore believe it to be our most urgent task to bring the D-Mark back on to a path of stability.

. . . only those countries which have irrevocably fixed their exchange rates and transferred monetary sovereignty can be full members of the European Central Bank System . . .

Integration in Phases

Close to the 3rd stage, the key question will be which countries cannot or will not participate at the beginning. A suitable formula is now being developed to allow a relatively large number of member states to form an ECBS and others to stay out at first. The question as to which countries are able to participate must be decided. Countries which cannot or will not participate in the monetary union are allowed to take advantage of a (longish) period of adjustment. But only those countries which have irrevocably fixed their exchange rates and transferred monetary sovereignty can be full members of the European Central Bank System and take part in the decision-making process. It would not be the first time that the EC has progressed towards integration in phases. The phrase of *Europe at different speeds* was, I think, not a very wise one; it provoked the question "Who will be in class B?"

It is true that those countries that initially formed the EC — as long ago as 1957 — are most likely to proceed because they can look back on a far longer period of integration than the countries which became members at a later stage. But that is not the whole story. For instance, if Spain were able to reduce its wider band in the EMS to the narrower band — eight years after it entered the EC — Spain would then be one of the speediest countries in catching-up in the EC.

Today's European Monetary System of national currencies with still adjustable exchange rates could ultimately

develop into an *optimum* currency zone, i.e., a region suitable for a single European currency, which would be to the benefit of all countries and regions. Less advanced countries would not necessarily have to dispense with exchange rate changes once and for all at the same time, changes which they might still need to offset inadequate competitiveness; the final goal, however, must remain full membership of the monetary union.

I have given a description of the recent conception of the way to EMU. Describing the way and formulating the amendments of the Treaties of Rome, which are essential to a Monetary Union, are necessary. On the other hand, the time elapsing between agreement in Maastricht during the meeting of the Heads of Government next December and the realization of the 3rd stage will be long. Unexpected circumstances may force us to ask whether the concept is completely suitable. Such questions may arise from changes in the political landscape in Europe as well as from the wish of other countries to become members of the EC. The EC was never meant to be a *closed shop*, and should therefore remain open to other countries who wish to participate and who meet the relevant requirements. □

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Überblick

Die Errichtung einer dauerhaften europäischen Wirtschafts- und Währungsunion

In den letzten Jahren hat die Bereitschaft der verschiedenen Volkswirtschaften in Europa, ihr wirtschaftliches Verhalten aufeinander abzustimmen, immer stärker zugenommen. Dies gilt vor allem für die Staaten, die in der EWS miteinander verbunden sind. Aber auch die anderen Staaten haben sich für eine disziplinliertere Währungs- und Geldpolitik entschieden. Dennoch bestehen noch immer große Unterschiede unter den Nitgliedern der EG.

Die wirtschaftliche Integration aller Staaten der EG hat in den letzten Jahren ebenfalls erhebliche Fortschritte gemacht. Es besteht Einigkeit unter den Mitgliedern, daß eine weitere Integration durch die schrittweise Realisierung der Wirtschafts- und Währungsunion erfolgen soll. Die Absprachen von Maastricht waren ein wichtiger Schritt in diese Richtung.

Die tiefgreifenden Veränderungen, die derzeit in Europa vor sich gehen, zwingen allerdings zu der Frage, ob das vorliegende Konzept der europäischen Wirtschafts- und Währungsunion wirklich geeignet ist, um das gesteckte Ziel zu erreichen. Vor allem unter dem Gesichtspunkt der politischen Veränderungen und dem Wunsch vieler ehemaliger kommunistischer Staaten, der Gemeinschaft beizutreten, müßte das Konzept vielleicht nochmals überdacht werden. Die EG hat sich nie als "closed shop" verstanden. Sie sollte deshalb allen Ländern offenstehen, die den Wunsch haben, an der Entwicklung teilzuhaben und die gestellten Bedingungen erfüllen. □

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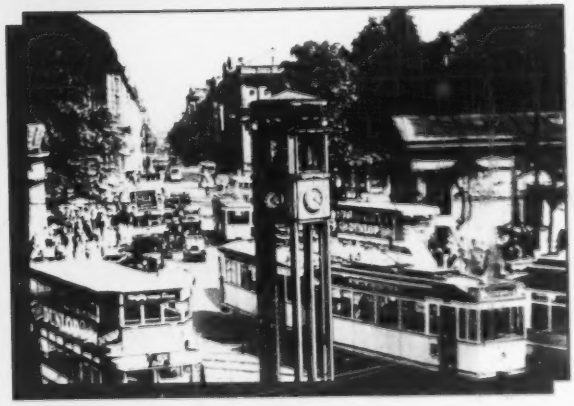
GERMAN UNIFICATION



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Der Wille kann Berge versetzen

Will Can Move Mountains

Birgit Breuel
President
Treuhandanstalt
Berlin

A superdimensional work by the painter Volker Tannert adorns the entry hall of the Treuhandanstalt (Trust Agency) in Berlin. Without even knowing the building where it would hang, he gave it a telling sobriquet: "Will Can Move Mountains."

The will of the population of the former GDR in the summer and fall of 1989 swept away a system that had constrained, suppressed and exploited them for over 40 years. The peaceful means by which this was accomplished is probably unique in modern history.

However, several certitudes are slowly beginning to emerge. Germany's division was ended by unification, first with economic, monetary, and social union on July 1, 1990 and then with the fusion of both German states on October 3. State treaties were ceremoniously sealed, and October 3 was declared a national holiday. However, reconstruction and jobs, investments, infrastructure, and local self-government will require more than treaties. The fulfillment of these tasks will take much time and energy, and we will enjoy full success only at the end—in several years.

We have assumed a serious mandate and do not have much time to carry it out. The decision in favor of German unity was also a decision for a social market economy in all of Germany, which means that a thorough restructuring of the economy is imperative. Many workplaces that showed little productivity became the victims of 40 years of mismanagement, and others will have to be reorganized at a great cost in capital, expertise, and experience. For example, new jobs will have to be created in construction and services, sectors that were typically neglected in the former GDR.

Our mandate has been firmly fixed in the Treuhand (Trust) Law, which was passed by the first and only freely elected parliament in the history of the GDR on

According to the Unification Treaty . . . the Treuhand Law is to be treated as Federal Law.

June 17, 1990: created under public law, the Agency is to privatize and valuate state-owned properties according to the principles of the social market economy. The Treuhandanstalt is charged with adapting the existing economic structure to market requirements, particularly in assisting viable enterprises to become competitive companies. Next, it must press forward with privatization, working towards the goal of forming companies that can function in a free market by a rational break-up of industrial conglomerates so that an efficient economic framework arises.

According to the Unification Treaty between the Federal Republic of Germany and the GDR, the

The West German Minister of Finance, Dr. Theodor Waigel (right) and his East German counterpart, Dr. Walter Romberg, sign the Treaty of Economic, Monetary, and Social Union on May 18, 1990.

Treuhand Law is to be treated as Federal Law. We function on a legal foundation as an independent institution and are subject to public oversight. The Law furnishes the mandate. No one on the outside can give us directives in a specific case. We are not a government authority or a part of any ministry; nor are we government administrators. We are the Treuhand Corporation.

Organization

We intend to carry out our task in close contact with the people and regions affected, and that cannot be done by overcentralization in Berlin. In 15 cities between Rostock and Dresden, the Treuhand has set up branches that have responsibility for more than two-thirds of all business entities, with the central office in Berlin responsible for the larger companies (more than 1,500 employees) and for setting the basic policies of our business, which naturally includes guidelines for and

Every potential investor should be able to find a knowledgeable advisor quickly.

the financing of privatization. A board of management runs the Treuhand to ensure that specialized expertise in the spectrum of our businesses is available.

We decided to adopt this form of organization ourselves. In just a few months, more than 3,000 executives and other employees had to find a format for working together, establishing internal communications, and, of course, creating reciprocal oversight. The administrative council is more than an oversight body. consisting of business executives (some from abroad), union representatives, experts, and high-ranking civil servants from the federal government. The administrative council supports the work of the Treuhand. It renders judgements in the case of major privatizations and decides key questicns of policy and action. Our form of organization enables us, despite the enormity of the task and our large staff, to conduct our work openly and with clear delineation of responsibility. Every East German enterprise has someone in the Treuhand who is directly responsible for it. Every potential investor should be able to find a knowledgeable advisor quickly.

Working as Partners

Our direct partners are the enterprises and their employees in eastern Germany. Towards this end, we maintain close contact with their boards of management and directors, supervisory boards and union councils. We have no intention of running them *from above*; rather, we want to help them as partners to stand on their own two feet. On their behalf or in association with them, we want to find new investors who will help to run the company. Thus, we work closely with all organizations that can be helpful: business associations, German and foreign chambers of commerce, and embassies, banks, and many others.

Green Light for Investments and Jobs

The greatest problem we face is still that of determining legitimate ownership. In the case of businesses or real estate, this may entail claims by former owners who want their property back. However, since the adoption this spring of new regulations, one unambiguous principle reigns: a green light for investments and jobs. Former owners who are not in a position to manage a business or do not want to or have no investment plan for their property will receive compensation as soon as the new buyer makes an appropriate investment commitment, secures existing jobs or creates new ones. The new owner can use his property as he chooses, with the government assuming responsibility for compensating the former owner.

A Pioneering Spirit

Like everyone else, we have to cope with the inadequate infrastructure in eastern Germany. Still, telecommunications are getting better, transportation networks are multiplying, and more hotel accommodations are becoming available. We are struggling with these problems, but are nevertheless succeeding by dint of improvisation, flexibility, and an unbureaucratic approach — in other words, with a pioneering spirit that makes and implements decisions quickly. We are also aware that in a few years eastern Germany will have the most modern infrastructure in Europe, thanks to the infusion of large investments, over DM 100 billion in 1991/92 alone.

Competitive Sales Negotiations

In the interest of the taxpayers, we are under an obligation to reach a fair and appropriate sales value with a new owner. Therefore, wherever possible, we

attempt to create a competitive atmosphere among potential buyers. In evaluating bids and selecting the most attractive, we look at a good many considerations. What is the financial strength of the new owner? Will an uninterrupted continuation of the business be ensured? Will all of the employees keep their jobs or, if this isn't practicable, will the pruning of the staff be done in a socially responsible manner? How does the business plan look, what is the quality of the new management, and does it have enough capital to realize its proposed plans? What are the buyer's thoughts about technology transfer, new products, and environmental protection? Or, is a takeover by management or staff possible?

Wanted: Business Concepts

A business concept is our first priority. We want to preserve as many jobs as possible, but the Treuhand is not giving anything away. That has been demonstrated in some 3,400 sales contracts that were signed by the end of August 1991. Total revenues realized amounted to DM 12.5 billion, just under 600,000 jobs in the newly privatized companies were contractually assured, and total capital investment commitments of DM 70 billion were secured.

Distinguished American corporations such as Ford, General Motors, Philip Morris, Reynolds, Coca-Cola, Procter & Gamble, and Otis Elevator have invested billions in eastern Germany . . .

Of the approximately 1,000 large enterprises that have been sold by the Treuhand in Berlin, 156 went to foreign buyers. We firmly believe that the reconstruction of the economy in eastern Germany offers new opportunities for foreign companies. Up to now, the French have been the front runners, a trend that first became apparent in March and has continued since then.

We will continue to encourage the inflow of private direct investment from Germany and abroad. Only private capital, as well as innovative ideas and modern technologies — which American businesses have in abundance — can lay the foundation for a lasting upswing. Distinguished American corporations such as Ford, General Motors, Philip Morris, Reynolds, Coca-Cola, Procter & Gamble, and Otis Elevator have invested billions in eastern Germany, a palpable signal that they have recognized the bright outlook for investments in that region. The benefits of comprehensive economic development programs that have been put in place are also available to foreign investors.

A Challenge to U.S. Business

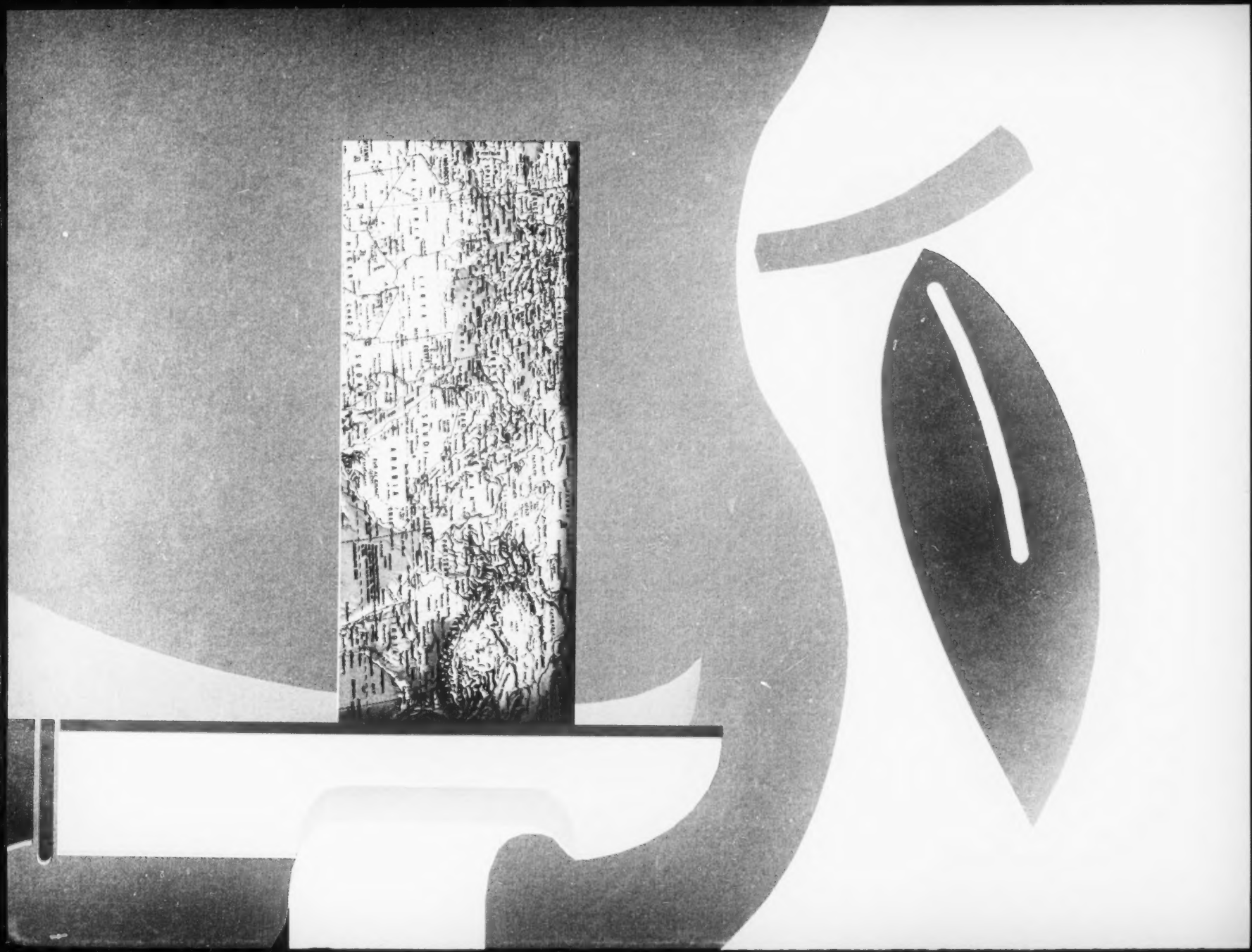
The integration of this region into the German economy represents a business opportunity for American corporations. The situation is comparable to the reconstruction of Germany after World War II, when U.S. business recognized its chance and laid the foundation for a long-term, successful business presence in Germany. Both in the case of German and foreign investments, we at the Treuhand have frequently seen a snowball effect: one successful privatization catalyzes further acquisitions.

The opening of a Treuhand office in New York City in October 1991 underlines the enormous significance we attach to American investment. The new office is staffed by professionals who have worked at the main office in Berlin and are now on the spot to provide potential investors with information and contacts in Germany—quickly, without complications or red tape. The attractions of setting up shop in East Germany are obvious: it is a region with a population of 16 million hungry consumers in the Single European Market and is located on the doorstep of the developing markets in Central and Eastern Europe. In East Germany the U.S. investor will find local personnel who are intimately acquainted with the customs and languages of Eastern Europe.

Rehabilitation, Too

In addition to its mandate to privatize, the Treuhand is seriously engaged in rehabilitating other businesses. After we have methodically worked out a business concept, we work with enterprises that are potentially viable from the ground up, helping them to modernize themselves and gain new markets with new products and concepts. Whenever possible, restructured and rehabilitated companies are intended to be sold to private owners who will participate actively in their management. This may also be accomplished through an LBO by management or the employees. If this isn't feasible, aid in restructuring and rehabilitating an

President Richard von Weizsäcker visits the weekly market in Gera and takes the pulse of the people in eastern Germany.



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enterprise will be granted only if it comes up with a promising business plan.

The Liquidation Option

To be sure, there are enterprises in East Germany that have no chance of ever becoming competitive. In many cases, they have been turning out antiquated products that have no market. This category includes enterprises

If a careful investigation determines that an enterprise cannot be turned around, liquidation is unavoidable.

that were held up by the former GDR as models, as well as notoriously obsolete plants that polluted the environment. If a careful investigation determines that an enterprise cannot be turned around, liquidation is unavoidable. However, we make every effort to stretch out the process in order to gain time for new employment opportunities for the workers involved.

Answering the Critics

Despite dramatic successes in the work of rehabilitating and privatizing, there is still no want of criticism. The workforce in many of the enterprises we are trying to privatize don't understand why their situation is so precarious. For many people, the privatization process is proceeding too quickly and its impact is too acute; others see it as going too slowly.

There is the feeling abroad that the Treuhand is openly favoring German investors. Eastern Germans are concerned that privatization will mean that decisions affecting their future will be made in West Germany, where many of the new owners have their headquarters. Finally, we are constantly rebuked for making some errors and even blunders among the thousands of decisions we've had to make. We are listening, and what we hear amounts to an ongoing challenge. Depending on whether the criticism is valid or not, we either learn from it or respond.

The painting entitled *Will Can Move Mountains* at the entrance to our headquarters building is our watchword: Economic reconstruction will succeed when, in the place of central planning, the workforce is integrated into the enterprise, when entrepreneurially committed new owners, along with their employees, chart their own future. We can already detect that this transformation is underway in eastern Germany and that it will happen more quickly and decisively than many people expect.

We at the Treuhand are pursuing this goal, buoyed by the conviction that only a *common* will can truly move mountains. □

Überblick

Der Wille kann Berge versetzen

Wir haben eine grosse Aufgabe übernommen und nicht viel Zeit, sie zu erfüllen. Die Entscheidung für die deutsche Einheit war zugleich eine Entscheidung für die soziale Marktwirtschaft in ganz Deutschland. Dies macht einen umfangreichen Umbau der Wirtschaft in den neuen Bundesländern erforderlich. Viele Arbeitsplätze mit unzureichender Produktivität wurden Opfer der 40 Jahre langen Mißwirtschaft, andere müssen mit hohem Aufwand an Kapital, Kenntnissen und Erfahrungen umgestaltet werden.

Unseren Auftrag wollen wir ortsnah und bürgernah erfüllen. Dies kann nicht allein von Berlin aus geschehen. In 15 Städten zwischen Rostock und Dresden hat die Treuhand Niederlassungen gegründet. Die Niederlassungen betreuen mehr als zwei Drittel aller Unternehmen. Die Zentrale in Berlin ist verantwortlich für die größeren Unternehmen (ab 1500 Beschäftigten) und für die grundsätzlichen Leitlinien der Geschäftspolitik.

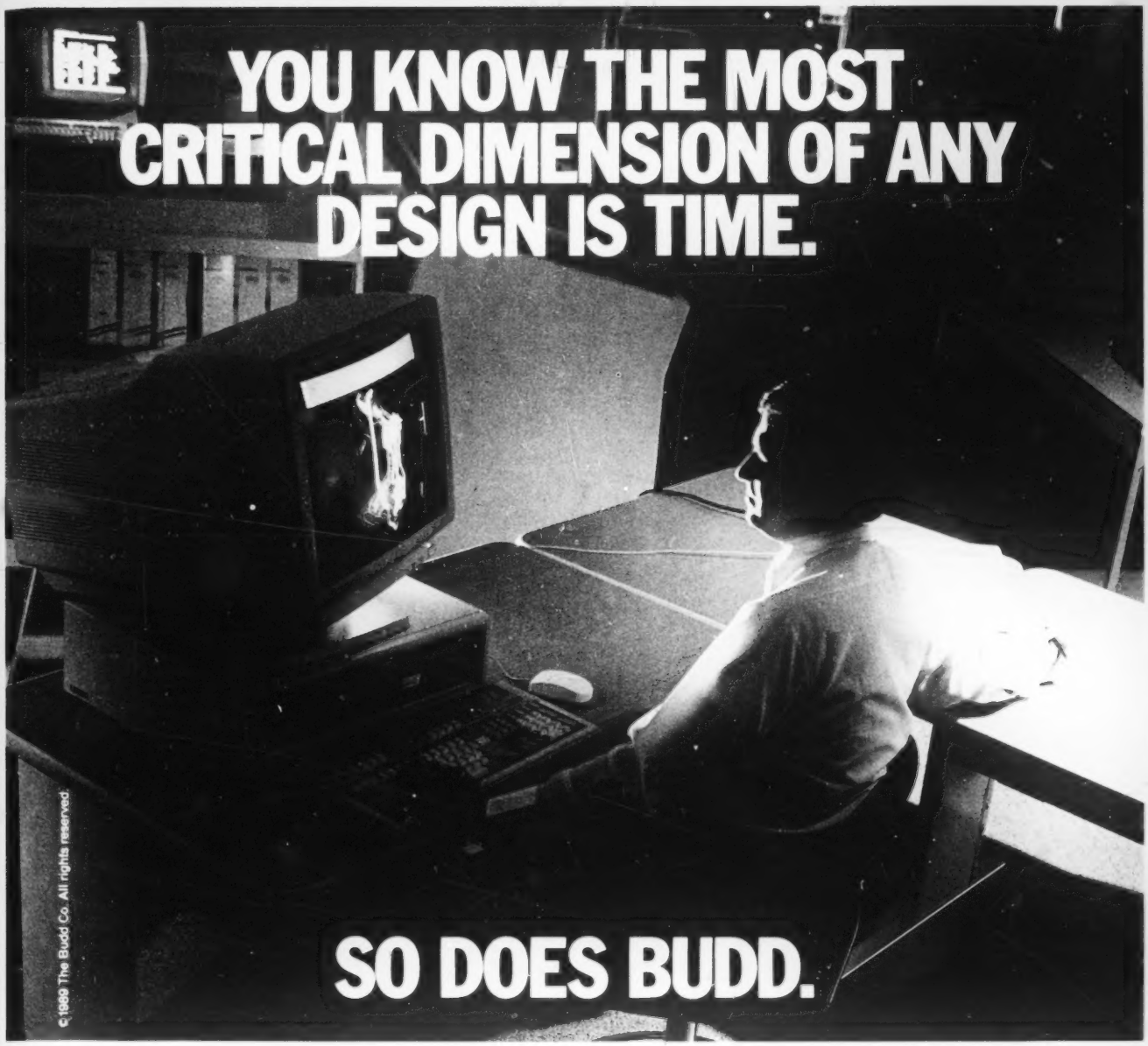
Unsere unmittelbaren Partner sind die Unternehmen in den neuen Ländern und ihre Mitarbeiter. Deshalb halten wir engen Kontakt mit den Vorständen und Geschäftsführern, den Aufsichträten und den Betriebsräten. Wir wollen die Unternehmen nicht "von oben" führen, sondern ihnen partnerschaftlich dabei helfen, eigenständig zu werden.

Bei den Verkaufsverhandlungen sind wir im Interesse aller Bürger verpflichtet, mit einem neuen Eigentümer einen fairen und angemessenen Kaufpreis zu vereinbaren. Wir streben daher, wenn immer dies möglich ist, einen Wettbewerb unter möglichen Interessenten an. Bei der Auswertung der Angebote und bei der Entscheidung über die Vergabe berücksichtigen wir viele Gesichtspunkte.

Wir fragen also zuerst nach dem Unternehmenskonzept. Wir wollen möglichst viele Arbeitsplätze sichern helfen. Allerdings hat die Treuhandanstalt auch nichts zu verschenken. Das hat sie bei den rund 3400 Vertragsabschlüssen bewiesen, die bis Ende August 1991 unter Dach und Fach gebracht worden sind. Dabei wurden Verkaufserlöse in Höhe von 12,5 Milliarden DM erzielt. Knapp 600 000 Arbeitsplätze wurden in den privatisierten Unternehmen vertraglich abgesichert und gleichzeitig Investitionenzusagen in Höhe von 70 Milliarden DM gegeben.

Neben der Privatisierungsaufgabe hat der Sanierungsauftrag ein besonderes Gewicht für die Treuhand. Auf der Basis sorgfältig geprüfter Konzepte begleiten wir grundsätzlich sanierungsfähige Unternehmen, damit sich diese durch Umstrukturierung modernisieren und mit neuen Produkten und Konzeptionen neue Märkte erschließen können.

Das Bild "Der Wille kann Bergen versetzen" im Eingangsbereich der Treuhandzentrale ist wegweisend für uns: Der Umbau der Wirtschaft wird gelingen, wenn an die Stelle zentraler Planung die freie Entfaltung der Mitarbeiter in den Unternehmen tritt, wenn unternehmerisch aktive neue Eigentümer gemeinsam mit engagierten Mitarbeitern die Zukunft gestalten. Überall in den neuen Ländern ist zu spüren, daß mit großer Anstrengung schnell und entschlossen der wirtschaftliche Wandel vorangetrieben wird. □



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Die Bankenlandschaft in den neuen Bundesländern

The New World of Banking in Eastern Germany

Peter Reimpell
Member of the Board of Management
Bayerische Vereinsbank
(Union Bank of Bavaria)

With the political unification of Germany on October 3, 1990, 40 years of division were ended. This event had been made possible by Mikhail Gorbachev's policy of political reform. That policy included the surrender of claims to hegemony by the USSR in Central and Eastern Europe, which ultimately enabled the people in the former GDR to gain freedom and democracy. With the support of its allies, Bonn seized the opportunity at hand, which led on July 2, 1990 to economic, monetary, and social union, and then to political unification.

But political union has not yet created economic reunification. That will not be achieved until the subpar standard of living in eastern Germany is brought up to the West German level. This will require above all that the socialist planned economy be transformed into a social market economy, and this as quickly as possible and without undue hardship for the eastern Germans.

Infused with a pioneer spirit and the enthusiasm of their employees, the West German banks have worked hard, beginning with the opening of the border, to create functioning markets in eastern Germany, and have invested substantially there in the process. Some idea of how much has already been accomplished in such a short time can be gained from looking at the banking system as it existed in the GDR up to July 1, 1990.

Old Banking Scene in the GDR

State-owned banks dominated the scene, having replaced the private banks that had been shut down by the Soviet occupation authorities after the war. This banking system was distinguished by functional delinea-

The most conspicuous substantive changes have been . . . financial services tailored to the needs of customers, and an entrepreneurial approach . . .

tions set by the state that prevented competition between the individual banking groups.

The *Staatsbank* was the dominant institution. A hybrid with the features of the classic central bank and a normal commercial bank, among its functions were to regulate the circulation of money and payments transactions, to supervise government and industrial accounts, manage hard currency reserves, and grant credits to industry. The *Bank für Landwirtschaft und Nahrungsgüterwirtschaft* was responsible for banking support for agricultural cooperatives and the food processing industry, while the *Genossenschaftsbanken für Handwerk und Gewerbe* had responsibility for the banking affairs of small businesses and trades. The swing

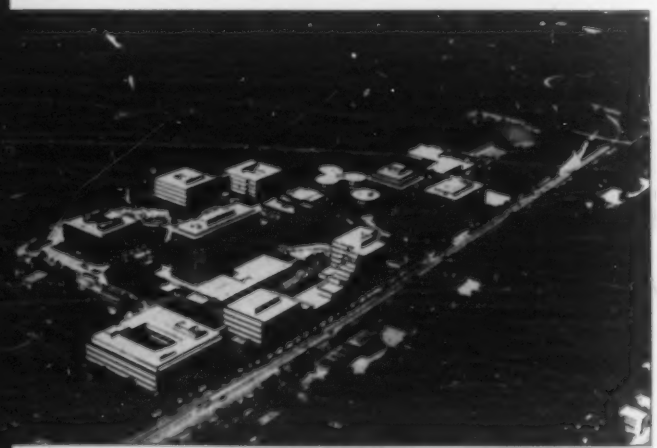
Deutsche Aussenhandelsbank and the *Deutsche Handelsbank* handled payments transactions and clearing systems in foreign trade. Banking for private individuals was assigned to the savings banks.

The range of services offered by banks in the GDR was highly regimented. Individuals had only two options, open either a savings or a checking account. Credit was completely regulated and had one purpose: to serve as an instrument for implementing social policy. Wholesale bank credit represented an inseparable element in the socialist planning process, i.e., it functioned as an instrument for guiding, planning, and controlling material processes, and was used for economic leverage.

Introducing a New Banking Structure

In order to achieve the requisite reform of the economy, the banking system in the GDR had to be thoroughly overhauled, structurally and substantively. The most conspicuous substantive changes have been the introduction of modern banking systems, financial services tailored to the needs of customers, and an entrepreneurial approach and execution on the part of the bank personnel. Much has changed for the better in eastern Germany and West German banks have certainly done their share. Early on, they recognized the impending changes in East Germany and moved quickly to respond.

July 1, 1990, the date that German economic, financial, and social union became effective, was the watershed for the process of economic unification of the two Germanys. On that day, the deutschmark became the sole legal currency in East Germany, in other words, the German Bundesbank assumed monetary authority. At the same time, comprehensive changes in the East German legal system became effective, which for all practical purposes amounted to the adoption of West German law as a whole. That date also marks the beginning of an all-German banking market.



Bayerische Vereinsbank headquarters complex just outside Munich.

Even before then, several German banks had moved energetically to assure themselves of a presence in the new market by that key date. The lack of available office space, poor communications facilities, and personnel bottlenecks caused difficulties that could only be overcome through improvisation. Several banks were returning to regions where they had had a strong market share up to 1945 or, in the case of Dresdner Bank, to the very city in which it was founded.

Union Bank of Bavaria never had any roots in the territory of the former GDR. But this did not prevent it from seizing the opportunity to expand into a region whose markets were still available and that would show substantial growth rates for several years to come. Union Bank and all other large banks operating in eastern Germany are trying to cover as completely as possible an area that has a lot of catching up ahead of it:

Liberated from the guardianship of the government, wholesale banking will have a bright future.

- On the supply side, the former GDR was underbanked. Whereas there is one bank branch per 1,400 inhabitants in West Germany, the ratio in the GDR was 1 to 3,400, i.e., about two-and-one-half times as high. Even if a similar ratio of an overbanked West Germany should not necessarily represent a target for eastern Germany, the comparison nevertheless suggests a substantial need for additional capacity.
- The demand for banking products was also relatively low, not least of all due to the small selection available. While the population in eastern Germany have to make up for lost ground in consumer goods, they now possess—thanks to the favorable exchange rate they received for their ostmarks last July—substantial savings. Even though savings there in the next few years will probably still lag ten years behind the West German level, personal banking in eastern Germany will register healthy growth rates.
- Liberated from the *guardianship* of the government, wholesale banking will have a bright future. In addition to operating businesses and those being restructured and privatized by the Trust Agency (Treuhandanstalt), just under 470,000 new businesses were registered from the beginning of 1990 through mid-1991. Of that number, 78,000 were deregistered, i.e., went out of business or reconsidered their decision.

Differing Strategies

West German banks have basically pursued two different strategies in entering the eastern German market: some have acquired existing banks, while others have decided to create a banking network on their own. Deutsche Bank and Dresdner Bank have each entered a joint venture with the Kreditbank AG, the commercial part of the former Staatsbank, under which they have

acquired existing branch networks and an in-place workforce. The key consideration behind this move was probably the opportunity to purchase scarce resources, i.e., offices and trained personnel. These considerable benefits (in addition to existing business contacts) must, however, be juxtaposed to distinct drawbacks. The employees they have taken on will have to be retrained to prepare them for their new work; Dresdner and Deutsche Bank will also have to address the problem of overstaffing. As to the acquisition of established relationships to eastern German enterprises, many of these will have little value since they are unlikely to have much of a business future in a market economy. At the same time, both banks have also sought to build as broad a base as possible by establishing their own branches. As of end-June 1991, Deutsche Bank had 185 offices in eastern Germany and Dresdner over 128.

Others, like Commerzbank and Union Bank of Bavaria, have taken their own particular road. They decided to build up a branch system under their own name, i.e., to pursue a strategy of opening up the market autonomously. In this regard, Commerzbank is re-entering a market where it had a strong position before the division of Germany and can therefore draw upon a certain degree of experience. In the meantime,

The bank reacted most rapidly in its so-called border branches, . . . in West Germany in close proximity to the border . . .

Commerzbank already has 65 branch offices in eastern Germany. Together with the Hamburger Vereins- und Westbank, in which we own a majority interest, Union Bank of Bavaria has opened 45 branches, and another 9 are set to open.

Progress by Stages

In the following paragraphs, I will discuss the individual steps in the decision-making process that ultimately led to the creation of our own branch system. It will, I hope, illustrate the diverse problems, as well as the positive experiences, that were part and parcel of entering this market.

With its decision to create its own branch system, the Union Bank of Bavaria chose a route that was more difficult, but still suitable for us. Granted, the purchase of existing banks enables a bank in one stroke to acquire three very important ingredients: buildings, personnel, and established relationships and ties. But the bank also acquires the baggage of the past and not the attractiveness of a western institution, which still constitutes an enormous business asset in eastern Germany.

The bank reacted most rapidly in its so-called *border branches*, i.e., those located in West Germany in close proximity to the border that had divided the two parts of Germany. After the border was opened in late 1989, contacts developed spontaneously, which led to business transactions even before monetary union on July 1, 1991. This was also true in Berlin, where the bank had

The Bank's "branch office" in Frankfurt/Oder opens for business on July 1, 1990.

been active for some time and where travel between East and West was particularly easy.

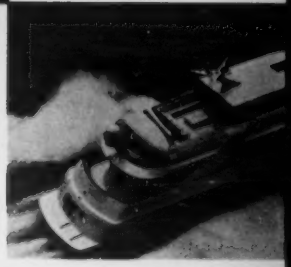
As for the rest of the former GDR, it was first of all necessary to study the markets and analyze the opportunities. Towards this end, the Union Bank opened an office in Leipzig the beginning of 1990. Our employees were literally overrun by eastern Germans and inundated with questions about the market economic system, many of which had nothing to do with banking.

The decision in favor of opening our own branch network was automatically coupled with the question of where they should be located. We concluded that the Union Bank Group should initially concentrate on the larger cities and later expand to smaller cities and towns. The northern part of eastern Germany was assigned to Vereins- und Westbank and Union Bank assumed responsibility for the central and southern tiers.

Problems Encountered in the East

One of the most difficult problems in entering the East German market was the search for commercial quarters. Often, the only recourse was to large industrial enterprises or the municipal authorities, insofar as they still had authority and were willing to encourage a commitment from the West. However, we were unable to conclude leases or purchase agreements in many cases due to property ownership questions, with the result that we were frequently forced to set up *sales space* in temporary structures or in mobile homes.

One thing that all Union Bank branches had in common, even those in regular buildings, was that they were located in quarters that had never been intended to serve as bank branch offices. This entailed problems with insurance, particularly in view of the large amounts of cash on hand, and uncomfortable working conditions. Not that this had a negative impact on the enthusiasm and job satisfaction of our employees. Without their talent for improvisation it would have been impossible to open the 16 offices on time that were ready to do business on July 1 at 8 A.M.



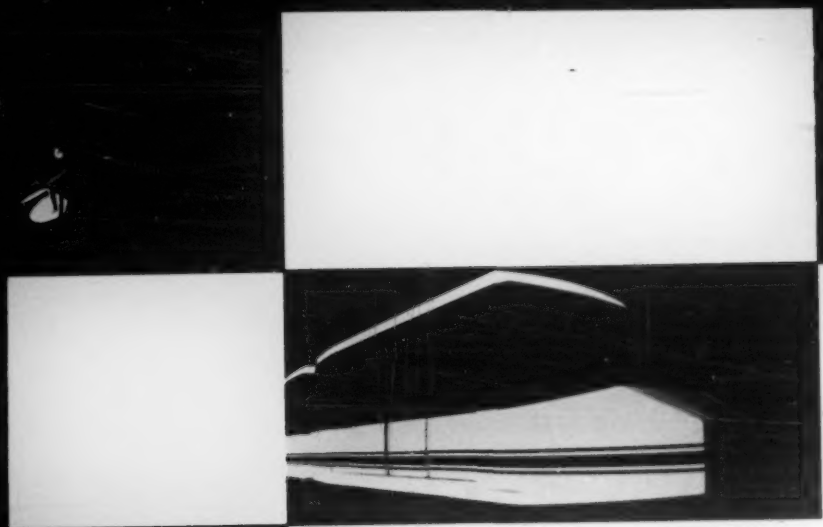
"It is the spirit that makes the world go round."

Antoine de Saint-Exupéry

Whether on land, water, or in the air, transport systems are growing ever closer together.

This convergence is propelled by revolutionary progress in micro-electronics. It's through micro-electronically supported satellite communication networks that

Daimler-Benz AG, P.O. Box 800230, D-7000 Stuttgart 80, Federal Republic of Germany



city traffic, railways, shipping, aviation and space travel can now be co-ordinated. Each system becomes part of a coherent whole. The engineers at Daimler-Benz are no longer limited to just one mode of transport. Instead, they are redefining complete systems, such as local public transport. Daimler-Benz planners are working on better logistics for long-distance road haulage. Projects to integrate air traffic within an overall transportation framework are also being evolved.

With our experience in traffic, transport and communications, we get things moving.

And keep them moving.

DAIMLERBENZ

The corporate units of Daimler-Benz: Mercedes-Benz, AEG, Deutsche Aerospace, Daimler-Benz InterServices (debis)

There were three available options for finding employees for the new branch offices, and all three were used:

- In the first place, a large number of our staff volunteered to work in East Germany;
- In addition, agreements were reached between the new East German offices and regional branches in West Germany, under which the latter furnished personnel on a temporary basis;
- Finally, the Union Bank was one of the first West German banks to hire apprentices and trainees from East Germany itself.

The bank furnished the students an Assessment Center, as well as a special training program that took account of the educational qualifications and gaps in their knowledge, e.g., their ignorance of market economics. The East German banking trainees have a definite talent for improvisation and are more team-oriented than their West German peers. Discussions are less argumentive and they spend less time posturing, so that groups reached their goals more quickly.

Finally, the Union Bank also sought out employees with college or other higher education in eastern Germany. But they, too, were put through a three-month program in a western German branch office before they began work in the new East German branch.

Creating New Banking Relationships

We found after the border was opened that many individuals came to the bank with money they had saved and wanted to invest it. In order to introduce these private customers to banking services in a market economy, Union Bank emphasized simple installment loans and conservative investments such as savings accounts, bonds, municipals, and trust certificates.

An examination of the wholesale banking side showed clearly that the industrial conglomerates and state-owned enterprises would be faced with enormous problems. Therefore, we decided to emphasize products that were most suitable for the needs of newly formed businesses and independent businessmen as well as craftsmen and retail stores. Especially appropriate for this category of clients were special credits (European Recovery Program loans to small and medium-sized businesses, equity assistance loans, the KFW medium-sized business program) and, of course, individual products put together by the Union Bank itself (particularly standardized loans for small and medium-sized businesses). Since, in addition to its commercial banking business, the Union Bank also conducts mortgage banking and can therefore extend loans to state entities, the public sector, i.e., towns and states, are important business partners. It goes without saying that our bank wants to loan money to municipalities and states in eastern Germany in order to help finance the substantial needs of the public sector.

Importance of Public Relations

Unlike Germany's Big Three banks, the Union Bank of Bavaria was something of an unknown entity to the general population in East Germany, which called for an intensive public relations campaign at the very outset. Early on, our bank held open houses in its branch offices that featured informational seminars and panel discussions. We also retained an eastern German psychologist to advise us on sending the right message in our advertisements and radio spots. Most important, we immediately began a dialogue with the press, discussing the bank itself, its products, and its strategy at press conferences. And incidentally, the Union Bank was the first bank to invite journalists from eastern Germany to its annual meeting (in Munich).

At this point, the phase in which the banks researched and tested the market may be regarded as

Überblick

Die Bankenlandschaft in den neuen Bundesländern

Mit Pioniergeist und hohem persönlichem Einsatz ihrer Mitarbeiter haben die westdeutschen Banken bereits unmittelbar nach der Grenzöffnung am Aufbau funktionierender Märkte in den neuen Ländern gearbeitet und zugleich in erheblichem Umfang investiert.

Im Hinblick auf die erforderliche wirtschaftliche Umgestaltung mußte das Bankwesen in der DDR sowohl strukturell als auch inhaltlich grundlegend reformiert werden. Die Einführung moderner Banktechnik, auf die Bedürfnisse der Kunden abgestellter Finanzdienstleistungen sowie unternehmerisches Denken und Handeln der Mitarbeiter sind dabei die herausragenden inhaltlichen Änderungen.

Zur Markterschließung haben die westdeutschen Banken unterschiedliche Strategien verfolgt: die einen setzen auf die Übernahme bestehender Banken, andere entschlossen sich zum eigenständigen Aufbau eines Filialnetzes.

Die Deutsche Bank und die Dresdner Bank sind mit der deutschen Kreditbank-AG - einem ausgegliederten Teil der alten DDR-Stadtsbank - jeweils ein joint venture eingegangen und haben damit ein bestehendes Filialnetz und eine große Zahl von Mitarbeitern übernommen.

Andere Institute wie die Commerzbank und die Bayerische Vereinsbank sind eigene Wege gegangen. Sie entschlossen sich zum Aufbau eines Niederlassungsnetzes unter eigenem Namen, d.h. zur Strategie der eigenständigen Markterschließung.

Was die Wettbewerbssituation auf dem ostdeutschen Bankenmarkt betrifft, so ist sie nicht statisch, sondern entwickelt sich zum einen infolge des wachsendes Marktes, zum anderen aufgrund von Marktanteilsverschiebungen. Mit den zu erwartenden Wachstumsraten in Ostdeutschland, die künftig über denen des Westens liegen werden, wird auch das Geschäft der Kreditinstitute wachsen.

Es ist zu erwarten, daß sich die Struktur des Bankensystems in den neuen Bundesländern jener in Westdeutschland anpassen wird. Der identische rechtliche Rahmen für das Bankgeschäft und die Vorgaben der Bundesbank werden diese Ausgleichung herbeiführen. □

concluded. Eastern Germany now has an integral banking market, though it needs to be broadened and deepened. Their early commitment enabled the banks to make an important contribution to the economic upswing in eastern Germany and at the same time set an example for other businesses. The important thing for the banks now is to expand their branch networks and to offer more sophisticated products. It will be important with regard to the latter that we take into account the inexperience of the eastern Germans. If we expect them to be more self-assertive and to assume more responsibility for themselves, we will also have to offer our counsel and services in a fair and honest way.

And Now, the Future

If the banks want to enlarge their market in the future, they will have to make investments in time and money that can only be expected to produce profits after a transitional period. Given the many cases where the ultimate ownership of property and real estate is still unresolved, we will have to assume loan risks of a different kind than we have been accustomed to in West Germany. The solution is to find a reasonable mean between supporting an economic upswing on the one hand and avoiding unwarranted risks on the other.

In retail banking, emphasis will be on deposits, loans, and securities, but building and construction financing will gain in importance. In wholesale banking, the core task will be to advise small and medium-sized businesses and to aid them in growing. At the same time, it is also important that we work with the larger firms as they get their businesses in order and to support them with our capital and expertise.

The competitive environment in the East German market is not static, but is evolving as a result of the market's growth and disparate market shares. Banking business will grow apace with overall growth rates in East Germany that will eventually exceed those in the West. In addition, some niche markets are still up for grabs, such as in real estate financing, which has been held back by the property ownership question.

In wholesale banking, the core task will be to advise small and medium-sized businesses . . .

We may expect that the structure of the banking system in eastern Germany will come to resemble that of the West, an adjustment that will be promoted by an identical legal framework and the standards set by the Bundesbank. Among others, that means that the share of savings and cooperative banks, which currently account for 90 percent of all types of banks, will diminish. Private banks and the large commercial banks will continue to make energetic efforts to build up their business base, and their market share will certainly expand. □

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Ost-Deutschlands Infrastruktur — Vorbedingung für die Entwicklung

Eastern Germany's Infrastructure: Core Prerequisite for Growth

Dr. Karlheinz Kaske
Chairman of the Board of Management
Siemens AG

Immediately after economic and monetary union on July 1, 1990, three months before political unification itself, the truly desolate condition of the East German economy became manifest. With the opening of its markets, international competition struck East Germany's industrial enterprises with full force and implacably exposed their true weakness. From the very beginning, it was clear that the transformation of a socialist command economy—whose failure to invest had consumed its material basis—into a functional market economy would be complicated and require enormous financial investment.

The major problem was dubbed *deficient productivity*, since most plants in the new states of the Federal Republic achieved — at best — 40-50 percent of the per capita production of their counterparts in West Germany before reunification. After monetary union, with the subsequent appreciation of most hitherto distorted prices, that level sank to one-third and even less in plants with little or no automation.

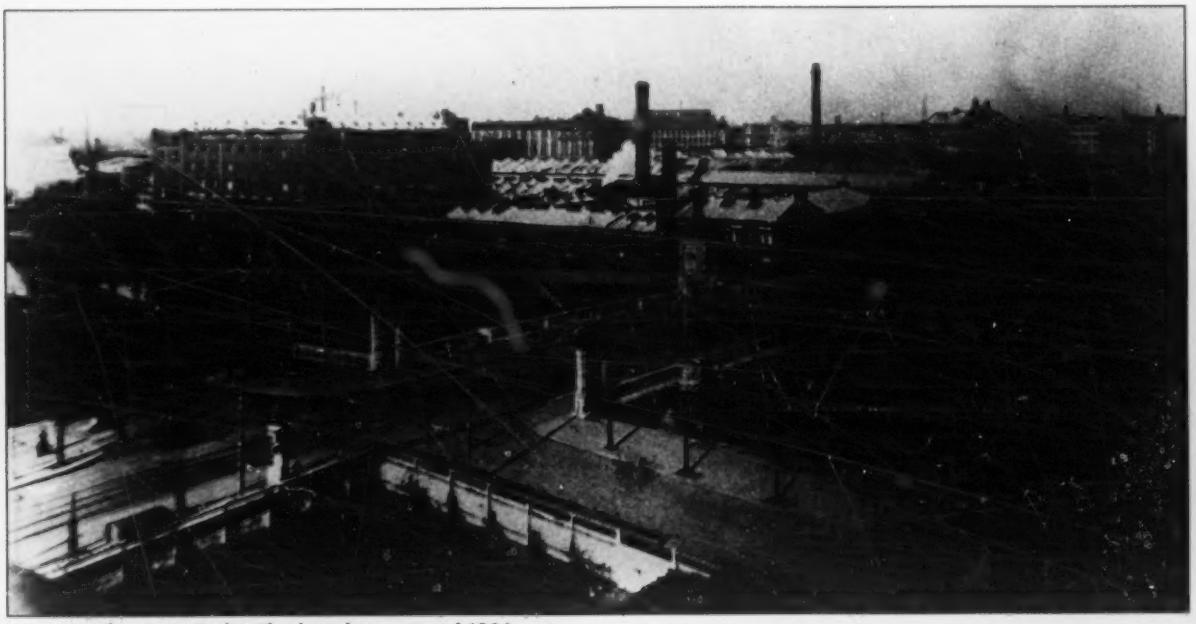
The low productivity had many origins that combined seamlessly within the nature of the system to stymie growth: organizational failures, which proceeded from

The main precondition . . . to raise* industrial productivity *on a permanent basis . . . is the creation of an efficient infrastructure that can meet the challenges of a modern, open economy.

the creation of a central command economy; an absence of market-oriented management and private initiative; and the wrong economic structure, which had been determined by COMECON to encourage an administered division of labor. In addition, the industrial structure had an overdeveloped value-added capacity so that enterprises could cope with uncertain deliveries of supplies. In addition, there were political directives, which burdened enterprises with tasks that had nothing to do with the business and served only to throttle output.

Urgent Need for Efficient Infrastructure

The main precondition for the pressing need to raise *industrial productivity* on a permanent basis and to achieve international productivity is the creation of an efficient infrastructure that can meet the challenges of a modern, open economy. Keep in mind, too, that a sophisticated infrastructure is important not only to industry but to other sectors, such as small trades and services. Add to that the benefits that accrue to the eastern German populace as the infrastructure upgrades living conditions.



A Siemens factory in Berlin-Charlottenburg around 1904.

Three examples—energy, telecommunications, and transport—demonstrate the tremendous need for rebuilding and renewing the economy's infrastructure. At the same time, they also make it clear that only by quickly correcting these weaknesses can eastern Germany be integrated into the West and benefit from the impetus of business investment.

Energy Sector

The energy sector faces the challenges of overcoming the legacy of hopelessly obsolete plants for producing, transmitting, and distributing energy:

- The depth and reliability of the East German *energy network* in the winter of 1989 corresponded to that of West Germany in the early 1950s.
- The region's fossil-fueled power plants have a very low average efficiency level of 29 percent, and in some cases it is just under 20 percent. The efficiency level in the western states of Germany is a good one-third higher, some 36-39 percent. This disparity has created in addition a huge pollution problem, mainly because the power plants in eastern Germany use high-sulfur content brown coal almost exclusively. Moreover, these plants were outfitted with totally inadequate pollution-control equipment.
- Atomic power plants, which were still functioning as of end-1989, didn't come even close to Western safety standards and were immediately closed down.

Public Communications

The urgent need to modernize public communications will be apparent to anyone who has ever had to use the telephone system in eastern Germany. The infrastructure was riddled with defects

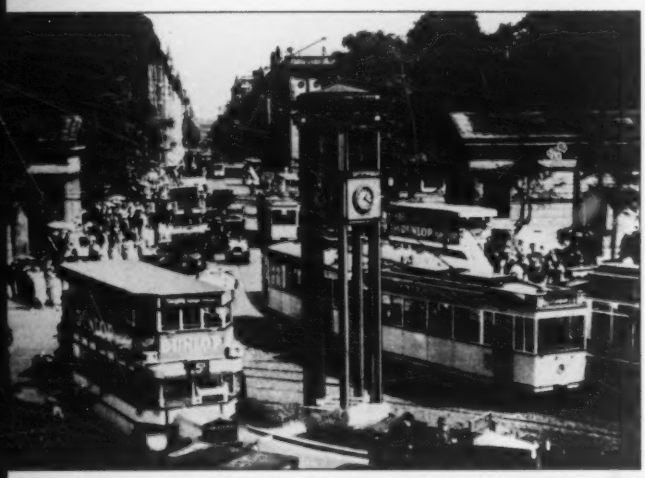
- The local and long-distance telephone system is obsolete—in Saxony it's state-of-the-art 1920s—and to a great extent non-functional.
- Traditional long-distance services were qualitatively and quantitatively subpar, let alone text and data communications, fax, and every type of international or mobile communications.

The original intention of the former GDR to install 60,000 new telephones a year would have required 20 years to acccommodate the waiting list. Now, within seven years and at the enormous cost of DM 55 billion, the number of telephone connections will be quadrupled and that of fax capabilities will mushroom by 200 percent. New telecommunications services such as Datex-P, Btx, mobile telephones, as well as cable transmission lines for radio and television, will be introduced for the first time.

Transportation

The eastern German railroad, the Deutsche Reichsbahn, consists of an obsolete rail network that was badly maintained:

- Only one-quarter of the rail network is electrified;
- Two-thirds of the rails and roadbeds, as well as the signal and safety systems, are in urgent need of replacement;
- Two-thirds of the switch boxes currently in place were installed before 1945. Many of them, still in working order, were produced by Siemens.
- 40 percent of the railroad bridges are more than 85 years old and were scarcely rehabilitated during that time.



Heavy traffic on Berlin's Potsdamer Platz in 1936.

Taken together, these defects add up to a picture of total desolation, which permits maximum speeds of only 45 mph, even on main routes; freight trains average 5 mph.

Rebuilding the Infrastructure

Addressing these three problem areas in the infrastructure alone by the year 2000 will require at least DM 300 billion, in other words, between DM 20 and DM 40 billion a year. However, this number appears daunting only at first glance. It is less so when compared with personal savings of DM 300 billion for 1990 in the Federal Republic and the gross value of facilities in these three sectors in western Germany of an estimated DM 200 trillion. When these investment projects are completed, eastern Germany will have in the near future one of the most modern infrastructures in the world, which should make it an extremely attractive destination for direct investment for companies from Germany and abroad.

The compelling need to rebuild and create a modern, efficient infrastructure is for Siemens, as well as for other German and foreign firms, a most significant goal. In order to invest the reconstruction with a broad and stable foundation, we do not approach our commitment merely from the standpoint of the day-to-day business of the moment. Rather, we are convinced a linkage of long-term business rationality and social responsibility must be applied. It should be noted that our company was founded in 1847 in the eastern part of Berlin. As a result of these close historical ties, we consider the eastern region between the states of Mecklenburg and Saxony as a geographical core part of our business origins. To be sure, it was difficult to maintain business and personal contacts over the past 40 years, but in the last analysis they were never completely severed.

Quite naturally, the business aspects of our commitment, i.e., the medium- and long-term potential of the market, are fundamental. We estimate that the electrical engineering market, our key business, will show double-digit growth rates in eastern Germany over the next five years, expanding to over DM 30 billion. That also means that, while our commitment rests on the hope of future business, it is not without its risks.

If business fundamentals and strategic considerations alone had been on the agenda, we could have served the eastern German market from our manufacturing and engineering facilities in western Germany and elsewhere in Western Europe. Instead, we consciously chose to build up a strong local presence of some 10,000 employees in our distribution network and about the same number in manufacturing. In addition, approximately 2,000 jobs were made secure through licensing or subcontracting agreements with Siemens-Nixdorf Informationssysteme AG and Siemens-Bosch Hausgeräte GmbH.

Siemens in the New Eastern States

Most of the roughly 20,000 jobs in eastern Germany that were either created or saved through acquisitions or partial shares in 18 existing companies are engaged in rebuilding and repairing the infrastructure:

- Several companies with around 9,500 employees are active in energy and plant technology. Siemens Anlagentechnik und Energieverteilung Leipzig GmbH sells, plans, and installs energy distribution and other types of high voltage plants.
- Siemens Anlagenbau Teltow GmbH designs and builds automation equipment for industrial and thermal power plants. Siemens Turbinenbau GmbH in Görlitz develops and produces turbines and turbine components, specializing in industrial power plants, while our factory in Meissen turns out high-voltage cable and wiring.
- Equipment for both public telecommunication and in-house networks is offered by four companies. Siemens Kommunikationstechnik GmbH develops and manufactures public and private communications systems in Leipzig, among others our HICOM system. Digital transmission technology is developed and manufactured, with some of the development work there bundled into a particular technology that is sold around the world. Our cable plant in Schwerin produces high-voltage technology as well as communications cable. Finally, Siemens Private Kommunikationssysteme Vertriebs GmbH is engaged in the distribution, planning, installation, and servicing of communications systems and other low voltage equipment. These companies combined provide around 5,000 jobs.
- Our WSSB Verkehrstechnik GmbH turns out safety and guidance systems for rail transport networks. Our other companies that manufacture high-voltage technol-

Creating confidence in the economic future of East Germany is an essential prerequisite for the successful transition to a market economy.

ogy also offer equipment that is required for a modern transportation infrastructure, e.g., contact and overhead lines for the urgently needed electrification of the railroad system.

Our business is broadly complemented in other areas related to the infrastructure, such as medical, wiring, and automation technologies. This comprehensive spectrum of business has clearly enabled our company to make a significant contribution to the reconstruction of eastern Germany. Creating confidence in the economic future of East Germany is an essential prerequisite for the successful transition to a market economy.

One cannot simply take over specific parts of an eastern German enterprise and pass on the purchase price to the Trust Agency, which is administering privatization. In our case, the follow-up expenditures required to realize our business concept play a far more important role than the purchase price. Witness, for example, total outlays in our plants in eastern Germany that will be invested between 1990 and 1992. Much of these will go into the factories and office buildings we have acquired. One-third of them should be torn down and three-fourths are too small to be economical. In addition to the structures themselves, the equipment and machinery—including energy supply, transport, and communications infrastructure—must be brought up to modern standards of efficiency. There is also the burden of the environmental legacy; we are spending many millions to cure the waste and pollution on these sites, damages for which we were in no way responsible.

. . . it is in our own interest to see the development of medium-sized manufacturers who can work together with large industrial partners . . .

Encourage the Human Infrastructure

We most certainly would not expose ourselves to risk of this magnitude if we were not confident of the prospects for success. One of the most important elements in this confidence, in addition to our technology transfer, is the willingness and energy of our employees. Their motivation and skills are so great that we hope to achieve high levels of performance relatively quickly. However, this will require considerable outlays for training in our advanced development, manufacturing, distribution, and administrative techniques.

Therefore, besides investing in new plant and equipment, we are placing great emphasis on education and advanced training. We are training over 1,600 young apprentices — far more than we actually need — and have acquired 12 training facilities that will take almost DM 60 million to bring up to West German standards. Almost 6,000 employees will participate in our diversified advanced training program in orientation, basic, and specialized vocational courses, as well as in leadership training. That is one of the reasons that we have succeeded in limiting the *import* from the West of trainers and specialists to one percent of our total workforce. Moreover, 1,600 R&D employees are working in cooperation with their western German colleagues in modest projects.

A street car in front of Leipzig's main railroad station.

We have made no secret of the fact that it is in our own interest to see the development of medium-sized manufacturers who can work together with large industrial partners in a division of labor. Therefore, our corporate divisions not only try to ensure that orders for East Germany are filled there to the greatest extent possible, but also let out subcontracts to eastern German factories to the extent practicable. For example, at our Leipzig communications plant, we use only local firms to supply our employee cafeterias, to provide janitorial and transport services, and to remove accumulated waste; in other areas, such as manufacturing supplies, we try to use as many local vendors as possible. At the same time, 60 percent of the contracts for modernizing the facilities in Leipzig have been awarded to local businesses.

Around two-thirds of procurement at our factory in Berlin-Treptow is accounted for by East German suppli-

A Siemens facility in West Berlin today.

ers, and the figure is about the same at our signal cable plant in Schwerin. If you add up the indirect employment multiplier effect as well as the public sector employment of 1,750 within the framework of the turnkey project run by the German postal system's Telekom division, over 40,000 jobs are dependent on Siemens' activities in eastern Germany.

Conclusions

The goal of all our businesses, not just in eastern Germany, is *international competitiveness*. Despite the growing economic upswing in East Germany, our commitment there is still not over the hill. We have acquired factories whose production capacity is still underutilized due to a dearth of contracts from the public sector, slack demand from local industry, or the collapse of their traditional markets in Eastern Europe. The upward pressure on wages that is being exercised by recently negotiated contracts with the unions represents a potentially lethal cost burden if productivity does not keep pace, not only for plants operating under capacity but for all of eastern Germany as well. The acid test of whether these will prove to be sound business investments will come in a few years when East Germany will have become a high labor-cost economic area. Besides our own efforts, the reconstruction of the infrastructure will be critical in determining whether eastern Germany can meet the international challenge of attracting direct investment. □

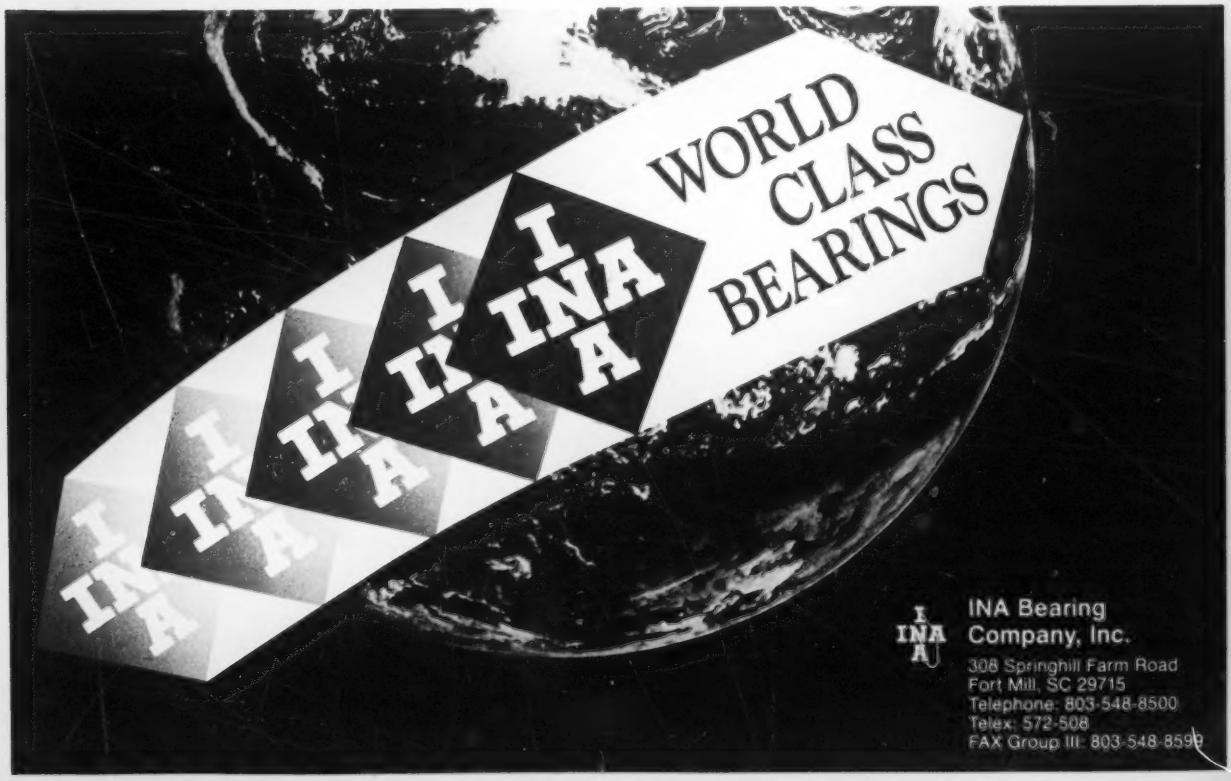
Überblick

Ost-Deutschlands Infrastruktur — Vorbedingung für die Entwicklung

Unmittelbar nach der Währungsunion trat der desolate Zustand der Wirtschaft in der Region, die drei Monate später die neuen Bundesländer werden sollten, offen zutage. Auf den nun geöffneten Märkten traf der internationale Wettbewerb die ostdeutschen Industrieunternehmen mit voller Wucht und deckte ihre Wettbewerbsschwäche schonungslos auf.

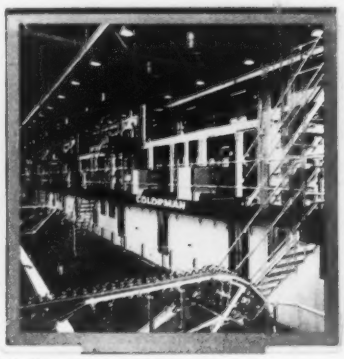
Die wichtigste Vorbedingung für die dringend benötigte dauerhafte Steigerung der industriellen Produktivität, für das Erreichen des Ziels "Internationale Wettbewerbsfähigkeit", ist eine leistungfähige, an den Erfordernissen einer modernen, offenen Volkswirtschaft ausgerichtete Infrastruktur. Eine zeitgemäße Infrastruktur nutzt aber nicht nur dem industriellen Bereich, sondern ebenso den anderen Wirtschaftssektoren, wie dem Handwerk und den Dienstleistungen.

Der Ausbau der Infrastruktur, der schon jetzt spürbare Fortschritte macht, wird neben den eigenen Anstrengungen ein entscheidender Faktor sein, um die Herausforderung des internationalen Standortwettbewerbs zu bestehen. □

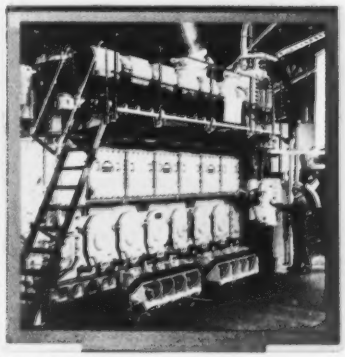


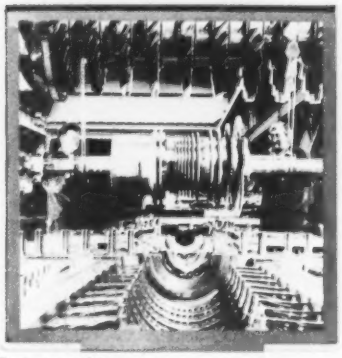
The MAN Group – Partners for Advanced Technology

Trucks



Printing presses


Diesel engines


Turbomachinery

GUTEHOFFNUNGSHÜTTE

MAN

MAN Aktiengesellschaft
Munich

MAN | FERROSTAAL

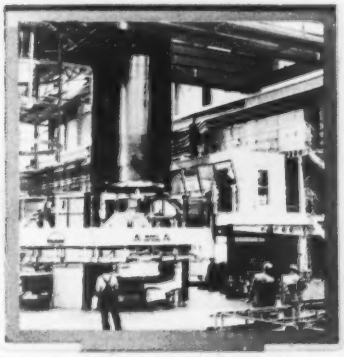
MAN ROLAND | MAN GHH

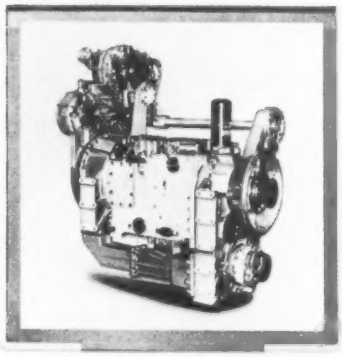
MAN B&W | MAN TECHNOLOGIE

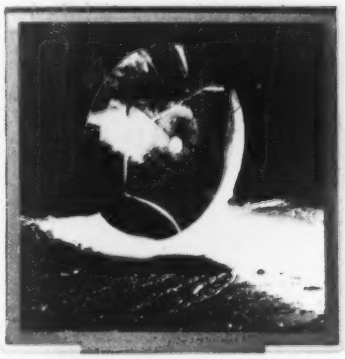
RENK | DWE

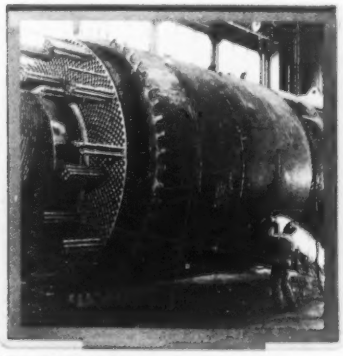
Major shareholdings

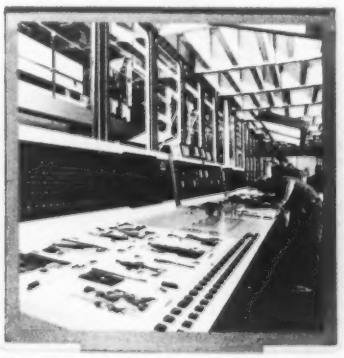
SMS SHW

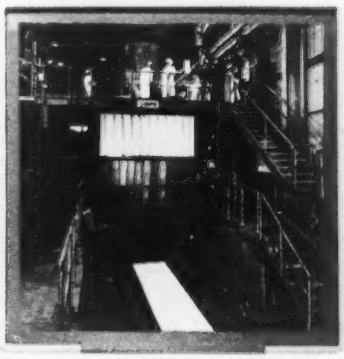

Components for space travel


High-power gear units


Special antennas


Chemical reactors


Microelectronics


Metallurgical plant technology

MAN Capital Corporation

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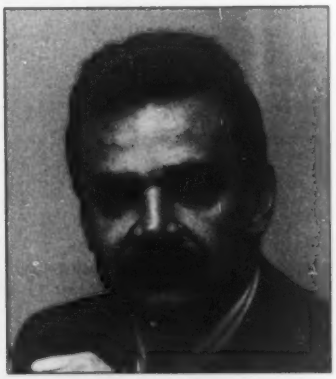
Werbung und Öffentlichkeitsarbeit in Ost-Deutschland

Advertising and Public Relations in Eastern Germany



Prof. Dr. Norbert Peche
Trimedia Public Relations AG
Berlin

At the outset, we might want to ask whether there is a special advertising and communications market in eastern Germany in the first place? Isn't it more properly merely a welcome extension of the existing western German market? Advertising professionals respond to this question with completely different answers. Of 22 major advertising agencies polled by *Horizont* magazine in the summer of 1991, 14 indicated that the specific features of the market had forced them to open an office in eastern Germany.

But, you will often hear the contrary view that if you can put together an advertising campaign in Hamburg for Bavaria, you can do the same thing for Saxony. Research instruments that would provide an informed answer to this question are available, but the data base from empirical social research as well as social and economic statistics are still insufficient to make a judgement that is soundly based.

If you ask the proverbial *man on the street* in West Germany his opinion of advertising and public relations, you will seldom get anything but a clear and unambiguous reply. In eastern Germany, by contrast, they ask you what you're talking about. If this image doesn't suffice to convince the reader that there are indeed specific features in the eastern German advertising market, more rational argumentation will probably not succeed either.

Advertising and PR in the GDR

"He who would shape the future must take account of the past" was a piece of wisdom offered by the philosophers of ancient Greece to their political leaders. Like all other types of business in East Germany, advertising must be based on the presumption that it, too, has its own particular history that is still a factor in the psychology of its society, even if the structure that created it has ceased to exist.

For many years, PR and advertising had no official role in the country's economic planning. Only after the

Under an economic system that sought to coordinate supply and demand before production, advertising was constantly restricted to serving a propaganda function . . .

regime abandoned its somewhat puritanical approach to socialism in the early 1970s did the picture become somewhat brighter. The satisfaction of consumer desires was supposed to counter the pervasive frustration with the system, and advertising became officially acceptable. For example, a nation-wide campaign was introduced that featured the slogan "Take one more egg" when it appeared there were enough eggs available. This

particular advertising offensive ended in exemplary fashion as the delivery of fresh eggs dwindled, whether because the chickens refused to cooperate or because the central planners found attractive export markets.

Under an economic system that sought to coordinate supply and demand before production, advertising was constantly restricted to serving a propaganda function that was designed to dispose of overproduction and had an esthetic mission that was for all practical purposes uncoupled from consumption goals. An appropriate sense of advertising corresponding to western practices existed only in export-oriented industries; advertising had no influence on consumer buying patterns themselves.

Regular reception of West German advertising on radio and television by many people in the GDR had the effect of popularizing western products in general rather than opening up concrete consumer appetites. Therefore, it's clear that manufacturers and institutions had no incentive to use advertising to influence a market that didn't even exist. On the other hand, consumers themselves had no opportunity to develop a relationship to advertising from personal experience.

The political upheaval in 1989 created a change of patterns in the economic system. This inevitably unleashed a profound psychological shock in the population because—however each individual had defined his attitude to *substantive socialism*, positively or negatively—he defined his value system from the tensions in his relationship to this reality.

The radical and abrupt shift in this reality rendered the individual's personal value system obsolete. The generally predictable loss of identity created by this event had to create a sense of insecurity and instability in psychologically-based behavior patterns. Advertising and communications professionals will have to take account of this phenomenon, which should also caution against making generalized judgements without first getting to know the extremely diverse attitudes of individual target groups.

Advertising Needs

Among the changed patterns mentioned above were the overall transition to a market economy and the sudden opening of what had formerly been an essentially autarkic economy to the global marketplace.

Nothing is more essential at this point than . . . advertising for products and companies that stand a chance of surviving the competition.

Virtually over night, all goods—and the process that produced them—were subjected to worldwide competition. In addition, the conversion from the east mark to the deutschmark roughly quadrupled the cost of all goods and services. The market should have been given a grace period to shield it or at least permit adjustment to more competitive products from the West after the abrogation of export and import controls. However, the

The proverbial "man-on-the-street" Unter den Linden in what used to be East Berlin

politically motivated economic and monetary unification program led to what amounted to a revaluation and a distortion of the market. The predictable result has been the massive collapse of much of eastern Germany's manufacturing sector.

The unavoidable crisis as the economy adjusts to the conditions of a market economy and the associated structural adjustment to competitive forces in world markets was thus reinforced by a flawed economic policy. It would be frivolous to expect a quick recovery in eastern Germany under these conditions.

With the exception of industries that are still receiving subsidies, output continues to shrink and unemployment is growing. With regard to advertising and communication, this situation has created a paradox. Nothing is more essential at this point than information about and advertising for products and companies that stand a

Advertising in eastern Germany must stress quality and price, not merely image or fashion

chance of surviving the competition. However, the business situation is such that the improvement in efficiency and the creation of distribution networks have taken such priority that very few businesses see themselves able to invest in advertising. After all, even in developed economies, advertising is frequently a recipe for success for those who have already made it.

In addition to these conditions on a concrete financial plane, there are also subjective factors that influence decisions on advertising and communications outlays. More than in the case of their colleagues in the West, East German managers entertain reservations in those areas where success is not directly determined by either technical or economic instruments. Early in the wake of German unity, a good number of fortune-hunters from the West German advertising and business consulting branches became a veritable plague in eastern Germany. More often than not, the only things they had to sell were impractical ideas and promises; they inflicted considerable damage on the reputation of the profession. Therefore, we will have to reckon with even higher barriers to market entry in eastern Germany than is the cast in Western Europe.

A Different Consumption Mentality

Almost one-third of the original workforce in the GDR is unemployed, about to be pensioned, working short

A newsstand in Leipzig.

shifts, or being retrained. The average family income in eastern Germany is, at best, half of the level in western Germany. It is estimated that after the three- to fourfold increase in rents some two-thirds of eastern German households will apply for rent subsidies. This list could be continued. But even this abbreviated version should make it clear that a different level of prosperity spawns different priorities in consumer attitudes. The huge need to catch up in acquiring consumer durables serves to reinforce that assessment.

This situation alone encourages a critical attitude towards prices that did not exist before. Shopping priorities, too, have been changed, with the purchase of products for immediate use being postponed in favor of

Given the financial straits of most eastern Germans, they make far fewer purchases based on image considerations than in the West.

higher value consumer durables that must be saved for. The savings habits of the population also prove that the buying frenzy that was expected after the currency conversion by some observers of the scene in eastern Germany is not about to take place. Only where the purchase of a car is concerned do I have the impression that people have occasionally behaved irrationally.

In addition to their income levels, individual buying attitudes are importantly influenced by changing attitudes in social psychology, which is a slow process. Following economic unification, there was a general propensity to cast off individual identity and chase the bold promises of the new world. Eastern-made products were disdained and products from the West (advertising, too) were snapped up with uncritical naivete. In the meantime, numerous disappointments have reawakened their critical faculties. People have learned that they can't simply step out of an identity acquired over the years and that they can't expect—even in a united Germany—to receive a new, more comfortable identity as a sort of dowry.

This situation has created in the more flexible elements of the population an extraordinary self-assertiveness. They are buying eastern products again and, with growing confidence, are demanding equal opportunities in a competitive marketplace.

This trend has a counterpart in advertising. One of the most successful advertising campaigns in the last few months was run by a brewery in east Berlin under the slogan "Beer from here". By contrast, a cigarette brand that identifies itself around the world with the Wild West was simply not understood by most people.

An attempt to guide—independent of the target group and, therefore, frequently off the mark—the eastern German attitude towards advertising permits some generalizations from experience to date.

The damage inflicted on their self-confidence after unification has made the eastern Germans extremely sensitive. Intellectual condescension in advertising and communications will have as little chance of success as ingratiating familiarity. For example, one spot currently

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Getting ready for July 1st 1990's monetary union, a shop in eastern Germany prepares for shoppers with their new D-marks

running on television features an actress who seems to be a native of the Rhineland presenting the message in a painfully poor imitation of the Saxon dialect. At best, this is going to elicit derision; at worst, it is liable to stimulate an angry counterreaction.

Advertising in the West has its own history, whose various stages of development were never psychologically experienced by the East Germans. Thus, they are really not conditioned for highly condensed lifestyle advertising, which is most likely to talk over the head of its audience. In a similar vein, a current spot featuring a well done environmental theme that concludes with the logo of a German car manufacturer serves as good advertising for environmental awareness but not for selling cars.

Given the financial straits of most eastern Germans, they make far fewer purchases based on image considerations than in the West. That the world fills its tanks at a particular company's gasoline stations is less relevant than substantive information about the price and quality of the

Businesses that are not prepared to accept an Eastern standard for a certain period as the price of success will not survive on the market long enough to put money in the bank.

product. The cheerless presentation of goods in the past has made them less susceptible to the flood of stimuli so common in the West.

A well conceived advertisement that contains wit and charm is more likely to find a receptive audience. A badly textured advertisement will be dismissed mercilessly and a message that grossly contradicts the eastern Germans' own perception of their lives will lack credibility in their eyes. Scarcely anyone in eastern Germany is going to change the beer he drinks just because the well-tailored captain of a Caribbean liner drinks another brand.

For many years, the East Germans lived in a deficit economy. Even if they didn't live all that badly, they are still not used to aggressive and imaginative campaigns to influence their spending. As a consequence, an intensive campaign often arouses the suspicion that it reflects a product that is somehow deficient. A soap powder that runs three spots in ten minutes and features six housewives praising its qualities creates uncertainties, and the intense effort is wasted.

Germans in both parts of the country speak the same language and this can lead to the mistaken assumption that language peculiarities do not have to be considered in preparing advertising campaigns for all of Germany. This overlooks the fact that 40 years of division have also created language differences. Much seemingly identical terminology can produce quite different reactions in the two parts of Germany. The influence of English on the German language has not been pronounced in eastern Germany. Thus, many stylish expressions that employ English words or phrases are simply not understood and create confusion. When the waiter in an American steak house uses an English phrase that refers to football, the effect is likely to be one of alienation.

The Advertising Market Today

It is estimated that by July/August 1991 some 1,500 companies in eastern Germany were running advertising, mainly small and medium-sized firms. A German advertising business weekly, *Horizont*, reported that in those two

At the present time, there is an enormous deficit in communications, above all between Germany and the United States.

months something over DM 82 million was spent on advertising in the classic media. That corresponds to 6 percent of outlays in West Germany in the same period.

A poll of eastern German companies conducted jointly by a business weekly, *Wirtschaftswoche*, and the National Association of Advertising Agencies, revealed that 41 percent of those questioned were already working with an ad agency and some 75 percent termed product advertising and public relations indispensable for the future. The media mix in eastern Germany differs somewhat from that in the West, with 9 percent of outlays going to radio, 26 percent to television, 31 percent to consumer magazines, and 34 percent to daily newspapers. It is interesting in this context to note that the major western German publishing houses have not—with rare exceptions—been able to achieve notable breakthroughs in eastern Germany.

Up to now, the most active advertisers in eastern Germany have been coffee producers and the makers of soap powder and cleaning and personal hygiene products. Although the data base is unsatisfactory and probably also inaccurate, it's clear that the advertising and communications market in the former GDR is still nowhere close to reaching the magnitudes that are routine in Western Europe. Smaller agencies without the financial resources that provide staying power are pulling out: the big accounts are still not there.

In view of this brief discussion, does it make any

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sense at all to enter the market in eastern Germany? It's not difficult to reply affirmatively to that question. The political leadership has committed itself to a successful economic and social transformation: longer-term economic indicators already point to good medium-term growth. In addition, East Germany down the road will play a bridge role in cultural and economic exchanges between Eastern and Western Europe. And it could well be that the advertising industry will benefit from these exchanges before they even occur. Businesses that want good earnings in eastern Germany tomorrow will have to move in now.

More often than not, close cooperation with local businessmen and officials helps to avoid serious miscalculations. That might mean establishing some sort of relationship with an eastern German business that is already active in advertising or communications, setting up a joint venture, or hiring personnel for a new business. And people on the spot, who are familiar with the unique mentality described above, can be indispensible in the hunt for acquisitions. The size of the planned business is not an unimportant factor either. Experience up to now has demonstrated that potential clients in eastern Germany do not feel comfortable with the giants of international advertising. On the other hand, they don't want to entrust their accounts to tiny shops either.

. . . East Germany down the road will play a bridge role in cultural and economic exchanges between Eastern and Western Europe. . . . the advertising industry will benefit from these exchanges before they even occur.

Businessmen entering the East German market would be well advised to be prepared to be patient and tough from the outset. They must create a climate of trust and credibility with the people they work with — local authorities and potential clients — through pragmatism and candor. That's an absolute prerequisite for long-term success. Businesses that are not prepared to accept an Eastern standard for a certain period as the price of success will not survive on the market long enough to put money in the bank.

Where Are the Americans?

The structural reorganization of East Germany, represents a huge task, and will depend on the privatization of all areas of the economy. The cost of the job over many years will be in excess of DM 100 trillion. The painful process of adjustment to free market realities will be shortened if it is possible to interest the greatest number of businesses abroad in investing in East Germany. Bonn and the various state government have put together an investment development program that is impressive in its scope and complexity. The share of foreigners who bought properties from the Trust Agency is still under 5 percent, and U.S. companies represent only a small portion of these.

Without a doubt, this situation can be ascribed to a striking shortage of information. How much do American businessmen know about the opportunities in eastern Germany? How many of them feel that they have enough information to judge the risk-reward element in the decision? And what about location and sound advice? There are many questions and only unsatisfactory answers. At the present time, there is an enormous deficit in communications, above all between Germany and the United States. That's a deficit that the advertising and communications industry should be in a position to improve. □

Überblick

Werbung und Öffentlichkeitsarbeit in Ost-Deutschland

Noch immer nimmt das Produktionsvolumen in den neuen Bundesländern - mit Ausnahme der staatlich subventionierten Bereiche - ab und wächst die Beschäftigungslosigkeit. Bezüglich Werbung und Kommunikation führt diese Lage zu einer paradoxen Situation. Nichts wird jetzt mehr gebraucht als Information über und Werbung für Produkte und Unternehmen, die im Wettbewerb eine Chance haben. Auf Grund der betriebswirtschaftlichen Situation steht jedoch die Verbesserung der Effizienz oder die Schaffung eines marktwirtschaftlichen Vertriebsnetzes derart im Vordergrund, daß nur wenige Unternehmer sich heute in der Lage sehen, tatsächlich in den bekannten und oft auch akzeptierten Bedarf nach Werbung zu investieren.

Neben diesen Bedingungen in der materiell-finanziellen Ebene existieren auch subjektive Einflüsse, die eine Entscheidung für Werbe- und Kommunikationsausgaben beeinflüssen. Mehr noch als ihre westlichen Kollegen haben ostdeutsche Manager Vorbehalte gegenüber Bereichen, deren Erfolg weder mit technischen noch mit ökonomischen Kategorien eindeutig zu bestimmen ist.

Die mit dem Wendeschock einhergehende Verletzung des Selbstwertgefühls hat die Menschen überdurchschnittlich sensibilisiert. Intellektuelle Unterforderung in Werbung und Kommunikation hat ebensowenig eine Chance wie kumpanenhafte Anbiederung. So kann eine gegenwärtig laufende Fernsehwerbung, in der eine wohl rheinländische Schauspielerin mühsam sächsisch redend ihre Botschaft speziell an die Ostdeutschen bringen will, bestenfalls hemmungsloses Lachen auslösen. Schlechterenfalls führt es auch schon mal zu aggressiven Gegenreaktionen.

Angesichts der finanziellen Situation der meisten Ostdeutschen, gibt es wesentlich weniger Kaufentscheidungen, die als ImageEntscheidungen gelten können, als man das im Westen kennt. Die eher trist aufgemachten Angebote der Vergangenheit haben bei der ostdeutschen Bevölkerung die im Westen allgegenwärtige Reizüberflutung noch verhindert. Gut gemachte, witzige oder charmante Werbung trifft daher noch auf viel mehr Aufmerksamkeit. Eine unkorrekte Inszenierung einer Werbebotschaft wird deshalb aber gnadenlos entlarvt und eine Botschaft, die dem eigenen Lebensgefühl massiv widerspricht, wird als unglaubwürdig abqualifiziert.

Die ostdeutsche Bevölkerung hat lange Jahre in einer Mangelsituation gelebt. Wenn es ihr dabei auch keineswegs schlecht ging, so ist es doch niemand gewohnt, daß um seine Kaufkraft hartnäckig und einfallsreich geworben wird. Ein zu großer Werbeaufwand wird deshalb nicht selten beargwöhnt, weil man dahinter ein unseriöses Angebot vermutet.

Trotz der sehr unbefriedigenden und wohl auch ungenauen Datenlage läßt sich sagen, daß der Werbe- und Kommunikationsmarkt im Osten Deutschlands noch keinesfalls den in Westeuropa üblichen Maßstäben entspricht. Der vermeintliche Riese scheint noch nicht erwacht zu sein. □

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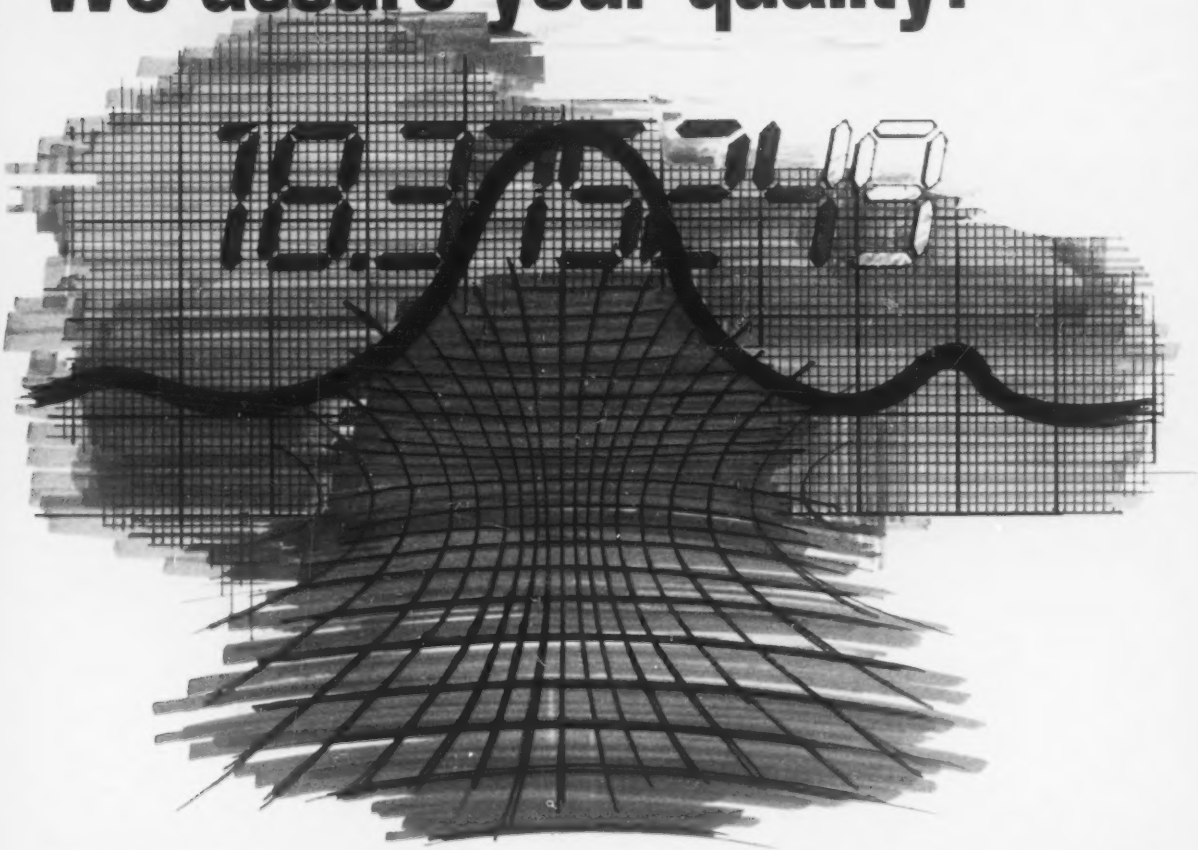

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Ost-Deutschland — Rückübertragung enteigneten Eigentums gegen Investitionen — Aufatmen oder ein Spannungsfeld?

Eastern Germany: Restitution of Expropriated Property vs. Investments

Relief or a Field of Tension?

Dr. Thomas O. Verhoeven, *Partner*
Peter Erbacher, *Partner*
Walther H. Neussel, *Partner*

Boden Oppenhoff Rasor Raue
New York

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I. Economic Background

The new German States which once formed the so-called German Democratic Republic are still in the middle of what is perhaps the most fundamental economic transformation possible.

For the East Germans, the hardships of this transformation can now be felt throughout the country, as the continued unemployment rate of 11.7% in October, 1991 demonstrates. Economic unity with West Germany immediately uncovered the weaknesses in East Germany's economy, primarily the lack of modernization and investment over the past decades, with the resulting productivity equivalent to only about one-third that of West Germany. Positive developments and new opportunities derived from the new union have been slower in presenting themselves.

However, due to certain improvements in investment-related laws, there are now clear indications that a reversal of this trend has started. The employment slump has recently become less severe than previously feared, sectors of the economy such as the construction industry and retail trade are now showing positive trends, and the Trust Agency, the governmental agency designated to privatize former State-owned enterprises (*Treuhandanstalt*), has developed clear and manageable internal structures and has so far sold more than 3,000 of the 8,000 formerly State-owned enterprises. However, since the State-owned enterprises were often huge conglomerates, the real figures of what has been sold and what is still available are much higher. Most of the legal and practical uncertainties of the early days have by now been solved. The companies now have Deutsche Mark balance sheets, and reliable information about an investment target is usually available in sufficient detail. Consequently, the East German GNP, which decreased sharply in 1990 and will fall even lower in 1991, is expected to grow by more than 5% in 1992 and by more than 10% in each subsequent year.

It is therefore time for foreign investors, especially American investors, to reconsider their initial reluctance to step into a market where they have so far been significantly under-represented compared to the number of foreign investors in West Germany.

Investment in the five new German states became even more attractive after Parliament enacted investment incentive legislation and decided in favor of Berlin as the German capital. The subsidies, investment grants and tax advantages are substantial and promote foreign investments without any kind of discrimination. There are available:

- -Direct payments to investors by way of subsidies;
- -Extraordinary depreciation of movable or immovable useable fixed assets (except automobiles and aircraft);

-Tax-exempted reserves leading to a tax deferral for investors;
-Investment grants within the budget limits;
-Subsidized loans.

It should be noted that Germany imposed a 7.5% income tax surcharge in the period July 1, 1991 through June 30, 1992 in order to finance Unification and the transition of the former East German economy to Western standards. However, new investments in East Germany should be practically unaffected by the surcharge because the returns on such investments will not fall within the surcharge period.

II. Recent Legislation on Property Issues

One of the most significant obstacles for a substantial flow of investments has been the absence of a functioning real estate market. Most pre-War private property was expropriated or confiscated under the Communist regime. The first wave of measures transferring private property into the *ownership of the people* (a more appropriate term would be government or State ownership) was the so-called *Land Reform* (instituted during the Soviet Occupation between 1945 and 1949. The East German Communist government installed in 1949 continued these expropriations and confiscations that ended with a comprehensive expropriation order in 1972 that resulted in most of the remaining privately-held real property and businesses, which had until then survived, finally being expropriated or confiscated. Consequently, hardly any real estate was in private hands when the Berlin Wall came down on November 9, 1989.

Economic unity with West Germany immediately uncovered the weaknesses in East Germany's economy, primarily the lack of modernization and investment. . .

To ease the tensions generated by the rapidly growing demand for land and to prepare restitution of Western constitutional order, on September 23, 1990 the then still- existing GDR enacted two laws in accordance with agreements with West Germany: The first, the Act Regulating Open Property Issues (Gesetz zur Regelung offener Vermögensfragen, hereinafter referred to as the *Property Act*) created claims for either the restitution of assets (including real property and businesses) which had been expropriated in East Germany, or for the compensation of their value. As a general rule, property confiscated or expropriated under the GDR regime shall be returned, whereas expropriations during the Soviet Military Government (the period between May 9, 1945 and October 6, 1949) shall not be reversed. In the case in which the actual property cannot be returned to the original owner or his/her successor, a monetary compensation for their loss will be made.

Second, the Act Relating to Special Investments in the German Democratic Republic (Gesetz ber besondere Investitionen in der DDR, hereinafter referred to as the *Investment Act*) provides that an investor can, under certain conditions, obtain an investment certificate entitling him to purchase or lease real property and thereby acquire or validly hold title with priority over restitution claims.

To date, over a million restitution claims for assets in East Germany have been filed. Yet these filings have caused great uncertainty as to whether disposal of an asset was thereby blocked or whether it still could be purchased or leased for the purpose of a priority investment. The filings thus created a major obstacle in a great number of acquisitions. The Investment Act, although designed as a relief to the blocked real estate market, has proved insufficient. The same has been true with priority rules regarding enterprises which were set forth in the Property Act itself. Difficulties in the handling of the laws, as well as unresolved problems regarding the determination of who exactly, i.e., which entity, was entitled to dispose of a particular asset and apply for the investment certificate, resulted in an on-going lack of availability of real property. Similar problems have affected investment in existing enterprises.

In response to such concerns, the *Act for the Removal of Impediments to the Privitization of Enterprises and for the Promotion of Investments* was enacted on March 29, 1991, which significantly amended the Property Act and the Investment Act. It has greatly expanded the opportunities for an investor to purchase or lease an asset by excluding any restitution claims to such asset.

A. Scope of the Property Act.

The Property Act as amended on March 29, 1991 covers all assets and claims to assets that were:

a) expropriated without sufficient compensation (indeed, it does not include expropriations effected during the Soviet Occupation between May 9, 1945 and October 6, 1949; this exclusion has been held constitutional by the German Federal Constitution Court in its decision of April 23, 1991. The German Parliament will decide on compensation for those expropriations);
b) expropriated with compensation lower than what citizens of the former GDR were entitled to;
c) sold by official administrators to third parties either directly or after having been transferred first into State property;
d) transferred into State property pursuant to a resolution of the Presiding Committee of the Council of Ministers of February 9, 1972, or related regulations;
e) real estate assets conveyed into State property by waiver of ownership, disclaimer of inheritance or gift if the waiver, disclaimer or gift was motivated by overindebtedness caused by such asset resulting from insufficient rent collected;
f) taken by the government or a third party by way of abuse of power, corruption, coercion or deception;

g) under one of the following compulsory governmental measures which shall be repealed:
   i. state administration of assets owned by citizens who left East Germany without permission;
   ii. preliminary administration of assets owned by citizens of West Germany or Berlin through governmental bodies on a statutory basis; and
   iii. the administration of "foreign" assets by the government;

h) assets formerly owned by individuals prosecuted for racial, political, religious, or other reasons during the period between January 30, 1933 and May 8, 1945 (this applies, most importantly, to expropriated or seized property of Jewish persons), and assets seized as a consequence of, or in connection with, unfair administrative or criminal proceedings.

B. *Covered Assets.*

The Property Act applies to real properties, buildings and other constructions, rights to use real property and similar rights, movables (including art work, jewelry, etc.), intellectual property rights, account balances, and participations in or title to enterprises with their business seat in East Germany, including East German branches of foreign companies.

C. *Nature of Claim/Principal Rule.*

In principle, assets which had been transferred into State property or sold to third parties shall be returned if a legally recognizable claim has been filed. Instead of claiming restitution of an asset, applicants may elect to claim monetary compensation, unless the loss resulted from the transfer of real estate into State property by way of gift or waiver of ownership or inheritance rights.

. . . title in an enterprise may be claimed only if the enterprise in its present status is comparable to the expropriated enterprise.

If applicants are only able to claim an asset jointly, they also need to exercise their election rights jointly.

Decreases or increases in value of assets or property since the conveyance into State property due to improvements financed by the State shall be compensated (value adjustment). Special regulations apply to the determination of increases and decreases in value and/or compensation claims for enterprises (basis: West German law balance sheets).

Purchase prices, redemption or compensation payments are taken into consideration on a two-to-one ratio (East German Marks to Deutsche Marks). Lost profits will not be compensated. Procedural details will be regulated separately. Pursuant to the Property Act, the person or entity which has the power to dispose of an asset must refrain from disposing of or encumbering the asset or from entering into long-term agreements with regard to the asset without the consent of the applicant if an application pursuant to the Application Decree (see below) has been filed, except for such transactions that are necessary to fulfill legal obligations or to maintain the asset.

In addition to reconveyance of expropriated property, the Property Act provides for the termination of compulsory public administration in the situations where this was the manner in which the State controlled an asset.

D. *Special Rules for Business Enterprises.*

(Secs. 6 and 6a of the Property Act). The Property Act also includes restitution claims for enterprises. However, title in an enterprise may be claimed only if the enterprise in its present status is comparable to the expropriated enterprise. The Property Act assumes comparability

> "if the products and services of the enterprise remained basically unchanged considering the technical and economic developments, or if earlier products and services have been replaced by new products and services."

An improvement or deterioration of the asset or profit status after expropriation must be compensated by taking into consideration general economic developments. In the absence of comparability, or in the case of applicants who opt for compensation rather than restitution, applicants may claim compensation in an amount equal to the value of the enterprise at the time of expropriation, including 1% interest per annum. The same applies to movables, if they can not be returned.

If an applicant claims title to an enterprise now forming part of a larger entity and restitution would require a spin-off, the applicant may claim an interest in the larger entity. The value of such interest must also reflect the changes in the value of the enterprise.

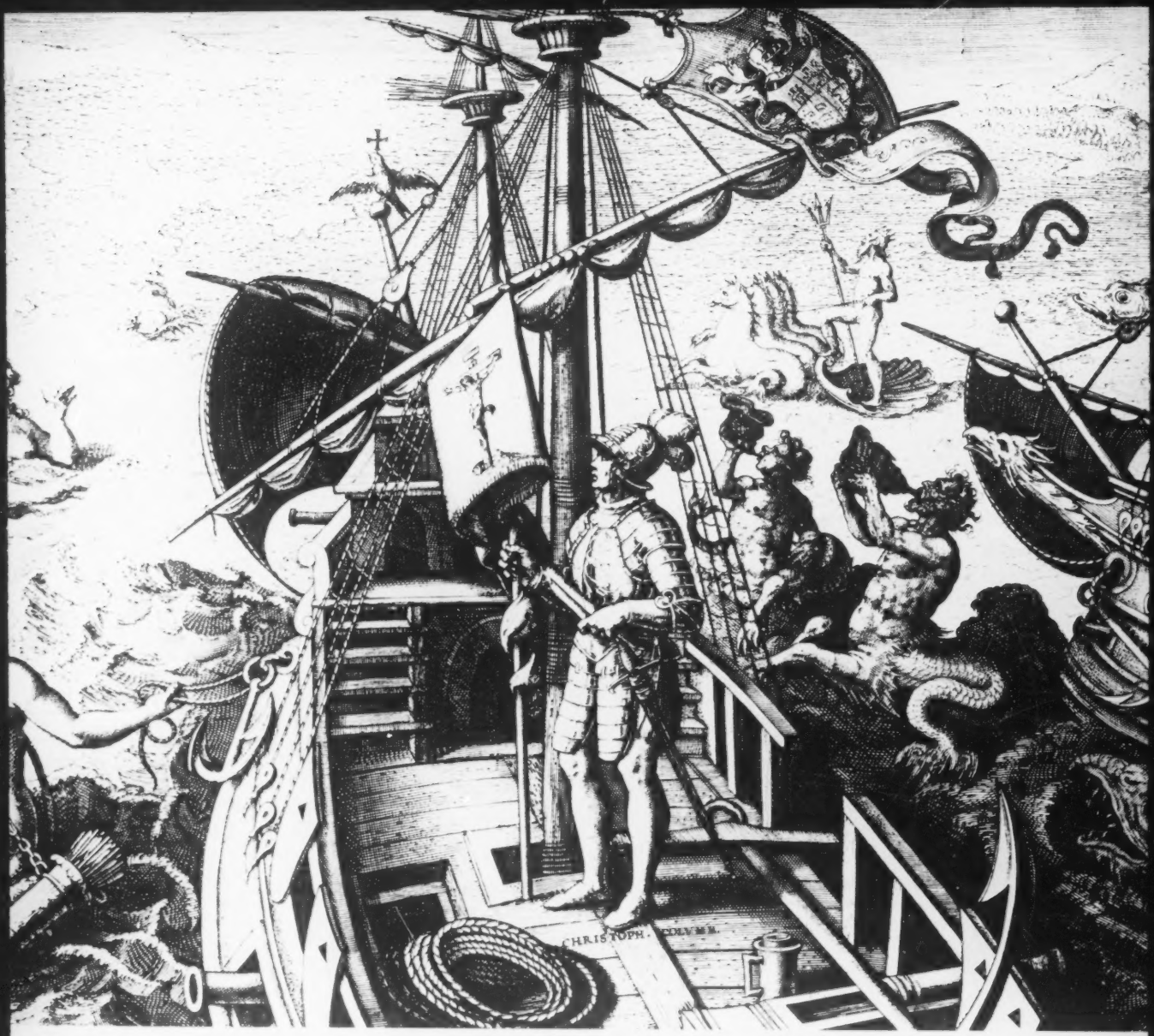
If assets were grossly mismanaged, applicants may claim damages pursuant to the law on government liability.

E. *Parties Involved in the Restitution Process.*

The restitution process affects a number of parties, the configuration of which often gives rise to confusion. Basically, there is one party which has become the victim of the confiscatory measure; there is another party in whose possession or ownership the item of property actually is (prior to the potential reconveyance); there might be an investor trying to claim priority over a pending restitution claim; and there are administrative authorities which might have to approve a transaction. Beyond the question of who is entitled to the asset and may therefore claim restitution, a particular source of problems appears to be the determination of the party which is legally entitled to dispose of the asset in question.

F. *Potential Claimants.*

Restitution and compensation claims may be asserted by the original owners, i.e., individuals and entities, and their successors and assignees. If more than one individual suffered from an illegal act, the applicant who suffered first in time may assert the claim. If an applicant claims (co-)ownership in an enterprise, the results of



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adjudicating the claim will apply to all other (co-)owners.

G. *Power of Disposal.*

Items of property which were affected by confiscatory measures were either converted into State property or given to third parties (e.g., party activists). As a standard rule, the person or entity now owning an item of property or in the position to dispose of it is regarded as having power of disposal under the Property Act. Difficulties arise in the case of State-owned property. Under Western legal order, title registers for real property and enterprises would tell who was considered to have power of disposal. In East Germany, registers were often inappropriate for determining the power of disposal of State-owned property since the registers did not always indicate specific administration authorities to have power of disposal. In addition, problems have arisen from the re-structuring of local authorities and municipalities causing "old" administration authorities to cease to exist. For that reason, a law has been enacted (Vermögenszuordnungsgesetz) to assign the power of disposal over an asset of State property to the public administration body on a community or state level. Special rules apply to the Trust Agency (Treuhandanstalt), the governmental agency designated to privatize the former State-owned enterprises. Ownership rights in these enterprises have passed, directly or indirectly, through holding companies to the Trust Agency, which in these cases exercises power of disposal by virtue of law.

. . . a law has been enacted . . . to assign the power of disposal over an asset of State property to the public administration body on a community or state level.

H. *Exceptions to the Principal Restitution Rule.*

To reduce hindrances in economic reconstruction and development and with respect to certain general considerations, exceptions from the principal restitution rule are provided for. The most important ones (most of which have been incorporated into the Property Act itself) are as follows:

a) *Special Investment Purposes.* (Sec. 3a of the Property Act, and Sec. 3.VI of the Investment Act). To enhance pursuit of specific investments, particular assets needed for such investment shall no longer be blocked by pending applications for restitution. Therefore, the provisions discussed below may be regarded as the heart of the March, 1991 amendments. By law, there are basically two levels of rules after these amendments granting priority for investments:

First, there is Sec. 3a of the Property Act, which is most comprehensive and therefore unofficially referred to as the *Super Investment Priority Rule* covering both immovables and enterprises. It is limited in time to contracts entered into prior to December 31, 1992. Second, there are Secs. 3.6 - 3.8 of the Property Act, the *Ordinary Investment Priority Rule* covering enterprises only, and the Investment Act covering immovables, both of which expire by December 31, 1993. Therefore, until the end of 1992, the subsequent *Super Investment Priority Rule* overlays the *Ordinary Investment Priority Rule* enacted earlier.

Under either Rule, an asset may be sold or leased irrespective of pending applications for restitution if the investor provides a detailed investment plan that demonstrates qualifying investment purposes.

Once the potential investor is granted permission to invest with priority in the form provided for in the specific Act, i.e., a contract under Sec. 3a of the Property Act, an administration approval under Secs. 3.6 - 3.8 of the Property Act or an Investment Certificate under the Investment Act, he enjoys protection from restitution claims filed by victims of expropriation or confiscation.

Qualifying investment purposes under the *Super Investment Priority Rule* include:

i. regarding the sale or leasing of real estate or buildings:
   (1) the creation or securing of jobs through the formation of a commercial establishment or an enterprise in the service sector;
   (2) the satisfaction of a substantial housing need of the people; or
   (3) the creation of infrastructural measures for such projects.

The granting of priority to the investor over pending restitution claims must be appropriate and reasonable; furthermore, the investor's ability to pursue his/her stated investment purposes must be contingent upon the granting of this priority;

ii. regarding the sale or leasing of enterprises:
   (1) the creation or securing of jobs or enabling investments that improve competitiveness;
   (2) the absence of a warrant to continue operating the enterprise by the applicant for restitution.

In the context of the *Super Investment Priority Rule*, the Trust Agency also has the power of disposal with regard to all enterprises that it owns indirectly, wholly or partially.

Within the framework of the sale of shares in an enterprise (as opposed to a sale of its assets) for investment purposes, problems may exist regarding assets, in particular, real estate, that belong to the enterprise. Such assets may, in turn, be subject to separate restitution claims, especially where the enterprise assumed or was assigned title to such assets through confiscation or expropriation. The assets of a company are not protected from restitu-

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tion claims regarding the company itself. In order to also obtain such protection for single assets, the investor would have to be granted an Investment Certificate with respect to the particular item. However, the possibility of obtaining Investment Certificates for assets in addition to the granting of priority for the investment in the enterprise itself is not addressed in the law. Still, it is the common belief of the Trust Agency that this is legally possible.

Within the framework of this *Super Investment* rule, the law does not prescribe a separate administration procedure. It is left to the entity having power of disposal to decide whether an eligible investment purpose is being presented. Consequently, the application of the rule is restricted to those assets whose control is assigned to the official local authorities or the Trust Agency. Before the asset can be sold or leased to third parties, the applicant who has filed restitution claims has to be heard (mainly to determine whether the applicant is willing and able to make a comparable investment by himself). If the asset has been sold or leased pursuant to this Rule, and the applicant s restitution claim turns out to be justified later on, a monetary compensation shall be paid to him in the amount of the revenues of the sales or, if higher, at fair market value.

To be valid, a purchase contract for expropriated assets under the *Super Investment Priority Rule* must contain a provision obliging the acquiror to return the asset if he does not comply with the investment plan during the first two years following the purchase, unless unforseeable business reasons force him to deviate from the plan.

Under Secs. 3(6) - 3(8) of the Property Act (the *Ordinary Investment Priority Rule*, regarding enterprises only, see above), the conditions are more limited as far as procedures are concerned:

Whereas the entity having power of disposal decides by itself on the qualifying investment purpose under Sec. 3a, Secs. 3(6) - 3(8) of the Property Act require a separate administration procedure and decision by the local district administration (Landratsamt bzw. Kreisfreie Stadt). On the other hand, Secs. 3(6) - 3(8) are also eligible for investment projects not involving a public authority or the Trust Agency exercising control of the enterprise.

Finally, the Investment Act sets forth the rules for the ordinary treatment of immovables until the end of 1993, as opposed to the more short term oriented *Super Investment* provisions. Under the

The granting of priority to the investor over pending restitution claims must be appropriate and reasonable.

Investment Act, the requirements are stricter than under Sec. 3a of the Property Act: In addition to the conditions of Sec. 3a of the Property Act, the investment project must be urgent in nature. A deadline on the realization of the investment will be set forth in the specific Investment Certificate, which must be issued by the local district administration pursuant to the Investment Act. Where limited real property rights are sufficient to pursue the investment, those rights may be granted instead of transferring full ownership rights by selling the asset (German law provides for certain types of limited real property rights). Notwithstanding the principal restitution rule, the Investment Act further stipulates the right of the entity having power of disposal of the asset to enter into long-term lease contracts, to encumber the asset or to invest by itself, provided that a qualifying investment purpose is given (self investments).

A party that would be entitled to restitution but has been deprived of this right under the Invest-

ment Act may claim monetary compensation in the amount of the sales revenues or fair market value. If the asset has only been leased, restitution will be granted and the applicant becomes party to the lease agreement.

b) Unfeasability of Reconveyance. (Sec. 4(1) and Sec. 5 of the Property Act). The Property Act also excludes the re-transference of assets whose dedication had been changed materially and entirely, i.e., property rights in real estate or buildings that have been changed at material cost and then brought into public use, such as schools or streets, and real estate or buildings in commercial use or forming part of an enterprise, if the real estate cannot be re-transferred without material detrimental effects on the enterprise.

An applicant may demand either revenues of the sale or, if higher, the fair market value if a re-transference of real estate is excluded because of special investments (see above).

I. *Good Faith Acquisitions.*

(Sec. 4(2) of the Property Act). Individuals, churches or charitable foundations having bought assets in good faith before October 18, 1989 need not re-transfer those assets,

Newly created authorities on the local level will handle the restitution and compensation claims.

provided that the authorities had legally granted the necessary approval pursuant to the Application Decree (Anmeldeverordnung, see below) of July 11, 1990. In the case of real estate, the authorities may grant compensation to the claimant in the form of other real property of equal value. The Property Act defines bad faith acquisitions as purchases violating valid East German law or based on corruption, abuse of power, malicious use of constraining situations or deceit of previous owners.

J. *Legal Consequences of the Restitution.*

When assets have been re-transferred to the applicant, he becomes party to all rights and obligations connected to the asset. Leases or other use agreements are only affected if the lessee or user holds his position because of corruption, abuse of power, coercion or deceit. Encumbrances registered at the time of the conveyance of a piece of property into State-owned property are re-entered in the Land Register. Mortgage claims of the State-owned banks against State-owned pieces of property are extinguished, and must be settled with the successor of these institutions. Lessees and users may claim compensation for improvements of the property. In limited circumstances, lessees and users have a pre-emption right.

K. *Procedure.*

Newly created authorities on the local level will handle the restitution and compensation claims. Applications must be filed with the appropriate local authority. In addition, a supporting and supervising authority on the federal level (Bundesamt) shall be established. An application filed with an authority which is not competent shall be forwarded to the appropriate authority by the original inappropriate addressee. Any application pursuant to the Application Decree of July 11, 1990 is deemed to be an application for the restitution of assets.

Applicants may request information from the authorities when providing prima facie evidence of a claim.

. . . this initial phase of merely taking stock is coming to an end and that the second phase involving decision-making regarding pending applications has begun.

They may elect between restitution and compensation until the authority has rendered a decision.

The authority must render a written decision and inform the Applicant of his/her legal rights to challenge the decision. The decision becomes *res judicata* within one month if no objection is filed. Once it is *res judicata*, title to the assets is automatically transferred to the Applicant. If necessary, the authority arranges for the correction of the Land Registers.

The Applicant is not charged for any administrative proceedings, except for the cost of counsel. However, the authority must reimburse the cost of counsel, if reasonably necessary to assert a justified claim.

L. *Deadlines Pertaining to the Application Decree.*

The Application Decree of July 11, 1990 set a "deadline" to assert claims by October 13, 1990. However, neither the Application Decree nor the Property Act exclude claims after the expiration of the deadline; they only exclude a right to claim restitution of title if title (especially in real estate) has passed to third parties. If title has so passed, applicants may only claim compensation. The "deadline" for claims based on expropriations in the period between January 30, 1933 and May 8, 1945 had been extended to March 31, 1991.

III. Outlook

To date, the various district administrative authorities have primarily been occupied with registering the restitutions claims filed and entering them into their computer system. Now it seems that this initial phase of merely taking stock is coming to an end and that the second phase involving decision-making regarding pending applications has begun. However, the duration of the decision-making process regarding an individual case may take months, if not years, especially if court procedures follow. Therefore, for the time being and for the near future, the availability of assets needed for investment will continue to depend on the application of the laws discussed herein. □

December 11, 1991

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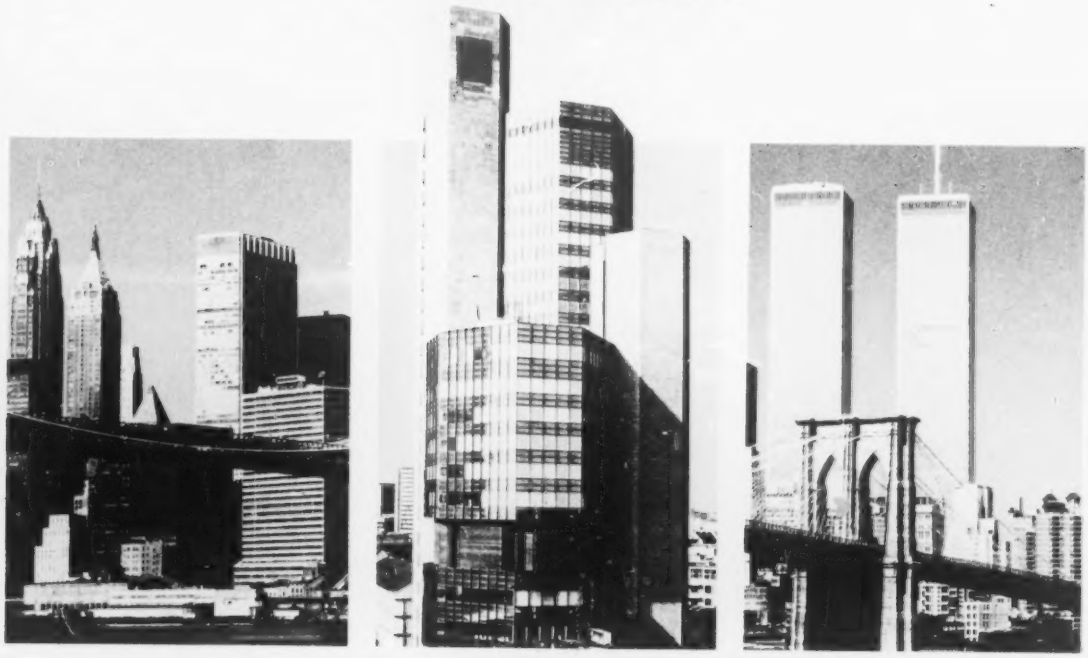

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Überblick

Ost-Deutschland — Rückübertragung enteigneten Eigentums gegen Investitionen — Aufatmen oder ein Spannungsfeld?

Nachdem Enteignungen unter dem kommunistischen Regime nahezu jegliches privates Eigentum absorbiert hatten, gibt es nun Gesetze zur Wiederherstellung einer Rechtsordnung nach westlichem Standard und zur Rückübertragung entzogener Eigentumsrechte. Danach gilt als allgemeine Regel, daß unter DDR-Hoheit oder aus rassistischen Gründen zwischen 1933 und 1945 konfisziertes oder enteignetes Eigentum zurückübertragen werden soll, während Enteignungsmaßnahmen unter der sowjetischen Militärregierung (Mai 1945 bis Oktober 1949) nicht rückgängig gemacht werden. Für Fälle, in denen das Eigentum nicht zurückgegeben werden kann, aus welchen Gründen auch immer, ist eine Entschädigung in Geld vorgesehen.

Jedoch haben Anträge auf Rückübertragung von Eigentum (Immobilien und Unternehmen) die betroffenen Vermögensgegenstände in großem Umfang "eingefroren", denn über Vermögensgegenstände, für die Anträge auf Wiederherstellung der ursprünglichen Eigentumsrechte gestellt sind, sollen weder die Treuhandanstalt noch andere Inhaber früheren Staatseigentums verfügen. Auf diese Weise haben sich unklare Eigentumsbeziehungen als einer der Haupthinderungsgründe fur Investitionen entpuppt. Aus diesem Grund wurden verschiedene Gesetze geändert. Sie geben nun in bestimmten Fällen Investoren, die konkrete Investitionsvorhaben verfolgen, Vorrang und beschränken die Rechte der ursprünglichen Eigentümer auf Entschädigung in Geld. Bedingungen, Prinzipien und Verfahren für derartige Vorrechte sind in der "Supervorfahrtregelung" und der "Einfachen Vorfahrtregelung" enthalten, die Teil der einschlägigen Gesetze sind, hauptsächlich des Vermögensgesetzes und des Investitionsgesetzes. □

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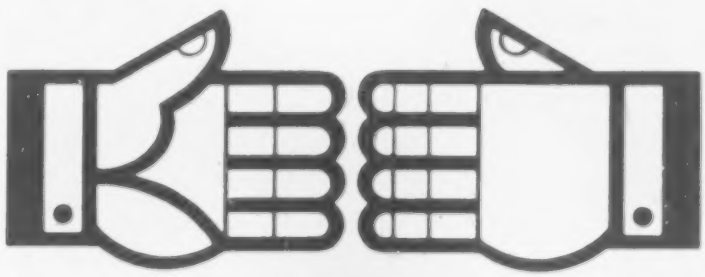

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Das neue Deutschland — eine Defizitwirtschaft ist im Entstehen

The New Germany: An Emerging Deficit Economy

Daniel Gros
Center for European Policy Studies
Brussels

In 1989, the year the Berlin wall fell, the Federal Republic of Germany had its largest current account surplus ever, $55 billion, or about 4.7 percent of GDP. In 1990, the year of unification, the surplus decreased to $44 billion, but this amount was the largest of all the world's economies. For 1991, a rough balance or small deficit is projected. Germany is therefore disappearing fast from the ranks of the surplus economies.

Unification has thus had a profound effect on Germany's external position. What are the reasons? The legal and political system of the Federal Republic was not much affected by the formal act of unification in October, 1990. Its territory increased by about 40 percent and its population by about 25 percent to 77 million. However, since per capita income in the eastern part of the country is much lower, its GDP will increase by only about 10 percent. The *new Germany* is therefore not much larger in economic terms than the old Federal Republic.

Economic Effects of Unification

Unification is having profound economic effects due to the enormous investment needs of the five new Länder, as the former GDR is commonly called. The disastrous state of the environment, obsolete industry and outdated public infrastructure require that almost the entire stock of private and public capital be rebuilt. Unless savings rise considerably, a large part of this additional investment must be financed from abroad, i.e., the current account surplus will be reduced and probably even transformed into a deficit. This is the main reason the *new Germany* might become a deficit economy for some time to come.

The "new Germany" might become a deficit economy for some time to come.

Another reason Germany is heading toward a deficit economy is the large cost of unemployment benefits, retraining and job programs arising from the industrial collapse in the new Länder. In early 1991—only 5 months into unification—industrial production collapsed to about 50 percent of its previous level and (mostly hidden) unemployment reached over 30 percent. After July, 1991, most of the 1990 contracts that protected jobs from the impact of the introduction of the deutschemark into the former GDR will expire. Much of the hidden unemployment will become open, increasing the already strong political pressure on the federal government.

The German basic law, Grundgesetz, requires the government to create *uniform living conditions* throughout Germany. This reflects a political consensus that large discrepancies in incomes will not be tolerated for

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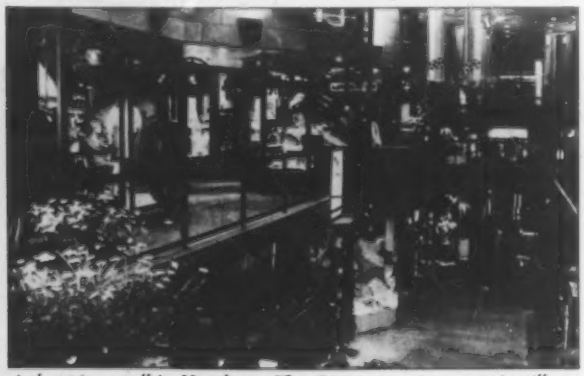
long—and could lead to further mass migration. It is the main thrust behind public investment, incentives for private investment and income support for the new Länder.

The amount the federal government will have to spend cannot be predicted because it is still unclear how much the restructuring will cost and how much of the funds earmarked for eastern territorial authorities (Länder and Gemeinden) will actually be spent. The final amount is likely to reflect a political equilibrium. There appears to be a consensus that the deficit should not be allowed to rise much beyond 5 percent of GDP. If higher expenditures are necessary, they will be financed by taxes, as the Bonn government recently announced. This implies that the public sector deficit projected for 1991 at about DM 140 billion, or about 5 percent of GDP, is unlikely to be reduced soon, yet is also unlikely to rise much further. This represents a huge deterioration compared to 1989, when the public sector accounts were roughly balanced, and compared to 1990, when the deficit was about 3 percent of GDP.

Medium-Term Outlook

Given this background, what is the medium-term outlook for the German current account and what are the global consequences of these developments? The deficit's likely size and duration can be gauged by the investment needs of the new Länder and the reaction of private savings to the fiscal deficit. The investment needs are certainly enormous—estimates range from about DM 1000-2000 billion (US $600 to $1300 billion at an exchange rate of DM 1.55 per dollar). It is impossible to project a more precise figure until reconstruction begins, but it is clear that even spread over 10 years the investment would be sufficient to eliminate the German current account surplus of 1990. The expenditures will most likely have a hump pattern: after a slow start in 1991, the worst problems in telecommunications and roads are expected to be cured in about three to five years. Work should then proceed at a less hectic pace after the middle of the 1990s.

Are savings likely to increase substantially so that the investment can be financed domestically? This is unlikely



A shopping mall in Hamburg. The German savings rate is still one of the highest in the world.

in the short run. Public savings are falling by about 5 percent of GDP (i.e., the public sector is going into deficit by this amount) and east Germans are likely to make up for 40 years of austerity by spending a large part of their new incomes on cars or household needs. The most optimistic assumption would be that east Germans maintain their 20 percent pre-unification savings rate. Given that their income is about 10 percent of west German income, this would yield a supply of savings equal to about 2 percent of overall German GDP.

West German households constitute the only source of higher savings. Experience suggests that, in the short run, about 35-40 percent of a government deficit is offset by higher savings since the public knows that in the end it has to pay up in the form of higher taxes. This implies that overall (public and private) German savings might fall by about 1 percent in the short run (3 percent in west

The emergence of a German Mezzogiorno, a region requiring continuous fiscal transfers, would imply larger public deficits and slower income growth . . .

Germany minus the 2 percent raw supply of savings from the east), thus reinforcing the negative effect on the current account coming from increased investment.

Over time, however, savings are likely to recover substantially since public sector deficits should decline once recovery starts in the new Länder. Moreover, econometric estimates show that in the long run private savings rise almost one for one with the public sector deficit. Overall, this implies that the current account will follow a J curve, as the current fall in the DM might suggest: a strong deterioration in 1991 (possibly continuing into 1992) followed by gradual recovery as savings increase and investment returns to normal. The speed at which the current account turns around also will depend on the strength of the recovery in eastern Germany. The emergence of a German *Mezzogiorno*, a region requiring continuous fiscal transfers, would imply larger public deficits and slower income growth, hence lower savings. However, the current account is likely to return to surplus once the immediate crisis is over.

This overall pattern would be consistent with the experience of the last 30 years. During the 1960s and 1970s, Germany had on average a current account surplus of about 0.7 percent of GDP, which rose to 2.4 percent of GDP in the 1980s. There were also current account deficits, the most recent in 1980 when the Federal Republic had a record current account deficit equivalent to 1.7 percent of GDP following the oil shock. Improvement from this bottom was slow but steady, and the current account kept rising continuously until it reached 4.4 percent of GDP in 1986. The reason for this shift was that private and public savings recovered from abnormally low levels, not because investment had declined as is sometimes alleged. A return to historical savings and investment patterns would mean a slow, but steady re-emergence of a current account surplus in the late 1990s.

Global Effects of Declining Surpluses

What will be the global effects of the disappearance of the German surplus? The consequence of a German current account deficit is a reduction in global capital, which should lead to higher real interest rates worldwide. This is already partial reality as interest rates have increased more than two percentage points in Germany, and somewhat less throughout the rest of Europe.

The effect on interest rates outside Europe should, however, be rather small since the shift in the German current account would amount to, at most, one-half of the shift in the U.S. current account in the 1980s. The U.S. went into deficit by about $140 billion. Germany would have to have a deficit of $15 billion (say in 1992) to reach a shift of $70 billion from the peak surplus of $55 billion in 1989.

Moreover, about 50 percent of German trade is within the EC and preliminary figures indicate that about 50 percent of the additional imports induced by unification come from the EC as well. This has two important implications. First, the global impact on interest rates should be small since the supply of savings for the world outside the EC (i.e., the shift in the current account of the EC) will be limited to the half of the shift in the German current account that derives from Germany's transactions with the rest of the world. Moreover, interest rates in the EC are linked to German rates via the European Monetary System (EMS). Interest rate differentials between the DM and the other EMS currencies already have fallen to a historical low.

Further interest rate increases in Germany should increase interest rates primarily in the Community, but the effect on the rest of the world should be limited (depending on the weight one attaches to the EC). Second, only about one-half of the swing in the German current account can be expected to offset the reduction in the U.S. deficit that is slowly materializing. The other half will contribute, however, to improvement of some of the EC deficit economies.

Unification Effects on the Deutschmark

It is often argued that unification should lead to a revaluation of the mark because Germany, in a sense, is repeating the experience of the U.S. Like the U.S. in the early 1980s, Germany is going into the 1990s with a tight monetary policy and an expansionary fiscal policy. In the U.S., this combination led to a large current account deficit and, initially, an unprecedented real appreciation of the dollar. In Germany, the current account is also deteriorating although there is, as yet, no clear trend in the exchange rate of the DM despite its recent fall. This is surprising, to some, because the swing in fiscal policy and the current account is larger and much faster than in the U.S.

There are several reasons why one should not be surprised that unification has not had a strong impact on the DM exchange rate. First, it is not clear why unification should lead to an appreciation of the DM; given the

The Market Square in Wismar in eastern Germany.

fiscal deficit and inflationary pressures that are likely to continue, there are reasons to be less optimistic. A second reason for not expecting large exchange rate effects is that the currencies of countries that make up about half of German foreign trade are linked to the DM through the EMS.

Unification should have an impact on the dollar/DM exchange rate only to the extent that it has a significant impact on the current account of the EC. However, the swing in the EC current account should be only about one-fourth of the swing in the U.S. current account experienced in the early 1980s.

A Future With Two Scenarios

The move into current account deficit in 1991 and possibly 1992 implies that Germany has become a *locomotive* for the rest of the world as it increases imports by $70 billion. Beyond this short-term horizon, Germany's role in the world economy will be determined by the recovery speed of the new Länder. Since developments have been totally unpredictable so far, it might be useful to consider two scenarios.

Under an optimistic scenario the eastern part catches up (in terms of income) to about 90 percent of the western part by the year 2000. This scenario requires growth rates of 8-10 percent in the east, on average, for almost a decade and implies that Germany will remain a dynamic economy. Both exports and imports would be stimulated, thus reinforcing Germany's interest in an open trading system.

Alternatively, if the recovery in east Germany does not materialize, the federal government will be pushed into conserving what little is left of industry in the new Länder. This would mean lower overall growth; Germany might become more protectionist, at least regarding heavy industry that has survived the restructuring. A pessimistic view of the restructuring process is reasonable: old industries are closing faster than new ones are created. It takes more time to create than to destroy, particularly in heavily regulated Germany and given the uncertainties of the legal status of 40 percent of all real estate in the new Länder. It is therefore too early to say which scenario is more likely. But it is evident that the world can only gain from a successful recovery of the east-German economy. □

Überblick

Das neue Deutschland — eine Defizitwirtschaft ist im Entstehen

Die Wiedervereinigung hat enorme Auswirkungen auf Deutschlands außenpolitische Position. Wo liegen die Grunde dafur? Das rechtliche und politische System wurde von dem formellen Akt der Wiedervereinigung im Oktober 1990 kaum betroffen. Territorial gesehen vergroßerte sich Deutschland um 40 Prozent, die Bevolkerung um 25 Prozent auf 77 Millionen

Ausgelost durch einen großen Investitionsbedarf in den funf neuen Landern, wie die fruhere DDR oft genannt wird, hat die Wiedervereinigung schon enorm wichtige Auswirkungen auf die Wirtschaft. Der verheerende Zustand der Umwelt, die dringend der Erneuerung bedarf, verlangen, daß nahezu das gesamte offentliche und private Vermogen neu aufgebaut werden muß.

Ein anderer Grund fur Deutschlands Entwicklung zu einer Defizitwirtschaft sind die aufwendigen Sozialleistungen und Arbeitslose, sowie Umschulungs- und Arbeitsbeschaftungsprogramme, die durch den Zusammenbruch der Wirtschaft in den neuen Landern entstanden.

Der Trend zum Wahrungsdefizit 1991 und moglichereise 1992 gibt Deutschland die Rolle der Konjunkturlokomotive fur die ubrige Welt, denn die Importe wurden um 70 Milliarden Dollar erhoht. Wenn man von dieser kurzfristigen Entwicklung absieht, so ist Deutschlands Rolle in der Weltwirtschaft vor allem von dem Aufschwung in den neuen Landern abhangig. Da die Entwicklungen bisher nicht voraußzusehen sind, ist es hilfreich, sich zwei verschiedene Entwicklungsmoglichkeiten vor Augen zu fuhren.

Bei dem optimistischen Szenario gleicht sich der Osten bis zum Jahr 2000 zu 90 Prozent dem Westen an. Sollte jedoch der Aufschwung im ostlichen Deutschland auf sich warten lassen, wird sich die Regierung gezwungen sehen, was immer noch an Industrieanlagen in den neuen Landern ubrig ist, zu erhalten. Das wurde insgesamt gesehen zu einem langsameren Wachstum fuhren; Deutschland konnte sogar protektionistisch werden, zumindest was die Schwerindustrie betrifft, die die wirtschaftliche Umstrukturierung uberlebte. Eine pessimistische Bewertung des Wiederaufbaus ist angebracht: alte Industriebetriebe sind schneller verschwunden als neue gegrundet werden. Der Aufbau braucht mehr Zeit als der Abriss, vor allem im stark regulierten Deutschland, wenn man berucksichtigt, daß uber 40 Prozent der Besitzanteile an Grundstucken in den neuen Landern rechtlich noch nicht entschieden wurde. Noch ist es zu fruh, um eine Prognose aufzustellen, welche Entwicklung sich durchsetzen wird. Eines ist sicher, daß sich ein erfolgreicher wirtschaftlicher Aufbau auf die ubrige Welt nur positiv auswirken kann. □

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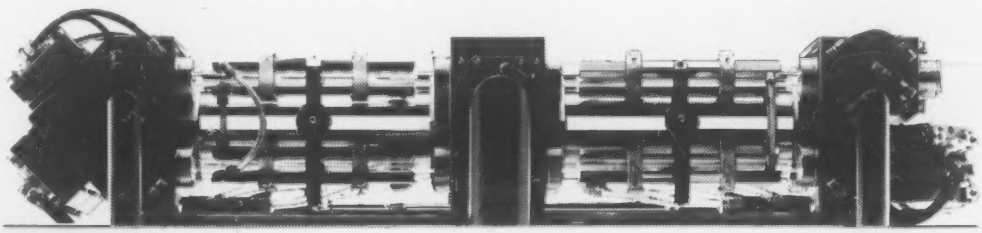

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Credit Facility

Funds Provided by
The Chase Manhattan Bank, N.A.
Banque Francaise du Commerce Exterieur
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Creditanstalt-Bankverein
Manufacturers National Bank of Detroit

The undersigned arranged, structured and underwrote this facility.
The Chase Manhattan Bank, N.A.
July 1991

CHASE

This announcement appears as a matter of record only.

Hudig-Langeveldt Groep bv

has sold its underwriting business

Interlloyd Verzekering B.V.

to

AMEV Nederland N.V.

The undersigned acted as financial advisor to Hudig-Langeveldt Groep bv.
Chase Investment Bank Limited
February 1991

CHASE

This announcement appears as a matter of record only.

AB Gustavsberg

has acquired

Koralle GmbH

from

Paul Hettich GmbH & Co

The undersigned acted as financial advisor to Gustavsberg.
The Chase Manhattan Bank, N.A.
April 1991

CHASE

This announcement appears as a matter of record only.

Roux, Seguela, Cayzac & Goudard GmbH

has acquired an interest in

DTM Deutsche Telefonmarketing GmbH

The undersigned initiated this transaction and acted as advisor to DTM during the negotiations.
Chase Bank AG
January 1989

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DM-Eröffnungsbilanz — Berichterstattung und Bewertungsfragen

Valuation and Reporting According to the "D-Markbilanzgesetz" DMBilG

Kurt Ramin
Partner, German Practice
Coopers & Lybrand
New York

Anyone involved with or contemplating doing business in the former East Germany needs to understand the basic provisions of the *D-Markbilanzgesetz* (DMBilG). The purpose of this article is to place in context the current reporting and valuation issues affecting financial statements being prepared for companies located in eastern Germany. Important tax aspects are provided in the last section.

Ten months after the opening of the Hungarian border in August 1989, eastern Germany shifted from a model communist country to a western market economy. These changes culminated in economic, social and monetary union in July of 1990. On Oct. 3, 1990 East and West united politically.

Unification Affects Accounting

The differing commercial and tax laws, and East Germany's adoption of the DM as their official currency made restructuring and reorganization of East German accounting inevitable. The annual financial statements of former GDR enterprises were not comparable with their western counterparts or transferable to German accounting standards. In considering the options to deal with these changes, it became evident that the future application of the *principles of proper bookkeeping* or *Grundsätze ordnungsmässiger Buchführung* (GoB) would require a restatement and revaluation of assets and liabilities of eastern enterprises. The conversion rate of 2 Ostmarks for 1 DM, as called for in the political unification treaty, applied only to existing bank balances. Using this rate would have misrepresented the financial and operating positions of East German companies. This would violate the *true and fair view* rule (§264 HGB) which constitutes the basic principle of German financial accounting.

The former East German government recognized the need to completely reorganize its accounting system and agreed to enact an appropriate law before October 31, 1990. An appendix to the treaty on formal political unification established the *law on the deutschmark opening balance* (DMBilG). This applies exclusively to East German companies.

Companies have to present an opening balance sheet and notes based on an inventory as of July 1, 1990, in compliance with *principles of proper bookkeeping*. Opening balance sheets must be submitted to the Treuhandanstalt, a government trust authority, which has overall supervisory responsibilities. The *Treuhandanstalt* (TA), a government trust authority, was established in March 1990 by the interim socialist government. It's purpose was to manage the privatization of state-owned companies and to provide for the systematic restructuring of industries in the new

states. This restructuring is accomplished by making property available for economic development and selling or shutting down controlled companies. By August of 1990 the TA held legal title to the shares of approximately 9,500 companies that controlled an estimated 4.5 million employees and became the largest holding company in the world.

Ranking of Germany's Top 20 Companies 1990

	Group turnover in DM million	Employees
1. Treuhandanstalt	?	4,500,000
2. Daimler Benz	85500	378,800
3. Volkswagen AG	68061	261,000
4. Siemens AG	63185	373,000
5. Mercedes-Benz AG	59800	231,000
6. VEBA AG	54591	106,900
7. BASF AG	46623	134,600
8. Hoechst AG	44862	172,900
9. RWE AG	44235	97,600
10. Tengelmann Group	42218	167,000
11. Bayer AG	41643	171,000
12. Thyssen AG	36185	149,600
13. Rewe Handelsgruppe	32000	120,000
14. Robert Bosch GmbH	31824	179,600
15. BMW AG	27178	70,900
16. Mannesmann AG	23943	124,000
17. Deutsche Bundesbahn	23770	232,400
18. Opel AG	23707	57,500
19. Ruhrkohle AG	22921	119,500
20. Deutsche Bundespost	22000	395,000

Source: Frankfurter Allgemeine Zeitung

Due to the accelerated German unification process, drawing upon prior experiences (see box) was of limited value. However, the *economic goals* pursued then are still valid today. They were:

- demonstrating an irreversible break with the past through a symbolic act;
- ending uncertainty to facilitate investments;
- determining the true net worth of enterprises;
- establishing a foundation for reliable cost-based accounting practices, and
- setting the basis for just taxation in accordance with the ability to pay principle.

Obstacles to Accounting Reorganization

The DMBilG increased the workload of the 7,000 West German certified public accountants (*Wirtschaftsprufers*). The East German accounting professionals, accustomed to preparing statistical information, were neither prepared nor qualified to audit financial statements prepared in accordance with the DMBilG. Accordingly, West German professionals assumed the responsibility.

The structure and organization of companies in the east was not geared to the preparation of financial statements in the Western sense. Milestones to measure meaningful returns could not be applied.

Production had been geared to meet a politically oriented government plan rather than attempting to realize a profit, efficiency or the optimum allocation.

Old accounting methods had served uniform central planning and control objectives. They were linked to economic statistics. A single business's operational data merged directly into an overall national accounting system, whose major components were:

- Cost accounting (*Kostenrechnung*)
- Benefit accounting (*Nutzenrechnung*)
- Financial accounting (*Finanzrechnung*)

Although the East German annual financial statements consisted partly of a balance sheet which showed sources and applications of funds on the basis of double book entry, differences between east and west substantially outweighed the similarities. For example:

- *Presentation & Disclosure* - Because land and property were owned by the state, fixed assets were missing on the balance sheet. Intangible assets (software, licenses), financial assets (long-term investments) and down-payments for fixed assets were not capitalized.
  On the liability side, there were even more fundamental conceptual differences. Operating capital was granted to the company either as earmarked funds or as loans from the socialist banking system. Equity capital was of no importance since the people were the shareholders of the companies. The accrued funds corresponded to certain asset items, thereby assuring governmental agencies that financial means were utilized for predetermined purposes only.

Accounting Reorganization: Germany 1923 Forward

This is not the first time in recent German history that financial statements had to be prepared on an emergency basis to comply with new rules:

1923: End of Inflationary Period
(*Verordnung über Goldbilanzen vom 28.12.1923*)
1948: Introduction of deutschmark
(*Gesetz über die Eröffnungsbilanz in Deutscher Mark und die Kapitalneufestsetzung - D-Markbilanzgesetz vom 21.8.1948*)
1959: Valuation of Companies in the State of Saarland
(*D-Markbilanzgesetz für das Saarland vom 21.8.1949*)
1990: Opening Balance Sheet for New Eastern German States
(*Gesetz über die Eröffnungsbilanz in Deutscher Mark und die Kapitalneufestsetzung - D-Markbilanzgesetz*)

The possibility of allocating realized profits to funds was limited because of arbitrarily determined transfers of net profits to the government. In addition, as was the case for assets, certain liabilities required by the German Commercial Code (HGB) were not accrued for. There were no special provisions for risks and liabilities arising from environmental clean-up work, waste disposal, or other contractual liabilities.

- *Valuation* - Prices are set by the market in free market economies and by the state in most command economies. Historical costs for accounting purposes derived from state dictated prices do not necessarily measure fairly original market cost and often require adjustment. Additional differences from western valuation principles were:
  — overvaluation of imported tangible assets from West Germany by improperly applying a conversion ratio of up to 3.5 to 1;
  — Assignment of long useful lives for assets (e.g., 100 years for buildings, 10 years for computers and motor vehicles), that resulted in low periodical depreciation expenses; and
  — periodic appreciation of assets using predetermined indexes to recognize increased replacement costs.

These differences illustrate the need to complete, restate and revalue both assets and liabilities. The main challenge the legislators faced when designing the DMBilG was in finding a solution to the equity funding (capital) problem and avoiding the threat of overindebtedness caused by the overstatement of assets combined with the understatement or omission of liabilities.

In summary, the foremost regulations of the DMBilG require that:

— The opening balance sheet has to be in accordance with principles of proper bookkeeping (*Grundsätzeordnungsmäßige Buchführung - GoB*)
— The valuation in the opening balance sheet will be the basis for tax reporting (50 DMBilG).
— The opening balance sheet has to be audited for all companies with total assets over DM 3.9 million or more than 50 employees.

Amendments and Ajustments

The DMBilG was amended to allow for clarification of obvious discrepancies in the original law and to adjust the timetable for implementation. (see timetable)

The provisions of the DMBilG are transitional. The basic values, which are replacement costs and reproduction costs, will become binding costs for future periods.

TIMETABLE

DATE	ISSUE
July 1,1990	Physical inventory: up to 4 months postponement is permitted, §2
October 31,1990	Preparation of opening balance sheet (Eröffnungsbilanz, EB) and notes by large and medium-sized companies, §4
December 11,1990	Preparation of opening balance sheet and notes of small companies, §4
June 30,1991	Audit and approval of opening balance sheet and notes of medium sized and large companies, §35; this is also the last date for backdating of incorporation, conversion, merger or divestiture.
July 31,1991	Disclosure of opening balance sheet and notes of medium-sized and large companies, §37
September 30,1991	Refusal of equalization claims from large and medium-sized companies, §24 Approval of opening balance sheet and notes of small companies, §35
October 31,1991	Disclosure of opening balance sheet and notes of small companies, §37 consideration of material value increases
November 30,1991	Preparation of consolidated opening balance sheet and notes, §21
December 31,1991	This date is the latest fiscal year end, §58; last date for fixing of equity, §57 or forced liquidation; refusal of equalization claims of small companies, §24
January 31,1992	Audit and approval of consolidated opening balance sheet and notes, §35
February 29,1992	Disclosure of consolidated opening balance sheet and notes, §37
March 31,1992	Preparation of overall opening balance sheet and notes by the Trust Authority (Treuhandanstalt) and the Trust Stock corporation companies, §21
May 31,1992	Approval of overall opening balance sheet and notes, §35
December 31,1994	Last date to adjust values in the opening balance sheet, retroactively, §36
December 31,1995	Equalization of equity account
December 31,1997	The equalization of the equity account is to file in the Commercial Register

Source: Deutsche Revision AG
"DM-Eröffnungsbilanz"
Mit den Änderungen durch das PrHBG
2. Auflage

WHAT IS INVOLVED IN PREPARING A BALANCE SHEET?

The fundamental procedure to establish meaningful figures for an opening balance sheet is to separate the reporting elements into their basic components: quantities and values.

ASSETS	AKTIVA	EQUITY AND LIABILITIES	PASSIV
Fixed assets	**Anlagevermögen**	**Equity**	**Eigenkapital**
Intangible assets	Immaterielle Vermögensgegenstände	Subscribed capital	Gezeichnetes Kapital
Tangible assets	Sachanlagen	Capital reserves	Kapitalrücklagen
Financial assets	Finanzanlagen	Revenue reserves	Gewinnrücklagen
Current assets	**Umlaufvermögen**	Special reserves	Sonderrücklagen
Inventory	Vorräte	**Accruals**	**Rückstellungen**
Receivables	Forderungen und sonstige Vermögensgegnstände	**Liabilities**	**Verbindlichkeiten**
Marketable securities	Wertpapiere	**Deferred Income**	**Rechnungsabgrenzungsposten**
Cash	Zahlungsmittel	**Compensation claims liabilities**	**Ausgleichsverbindlichkeiten**
Prepaid expenses	**Rechnungsabgrenzungsposten**		
Compensation claims receivables	**Ausgleichsforderungen**		
Deferred accrued cost	**Sonderverlustkonto aus Rückstellungsbildung**		

However, since the valuation amounts for assets and liabilities are subject to change, the law allows adjustments to the balance sheet until December 31, 1991. Because there were no markets in existence for land and property as of the balance sheet date, it will be very difficult to determine their actual values. The rights of elections regarding the presentation and valuation of balance sheet items as provided by the Commercial Code are included in the adjustment conditions of the DMBilG.

Procedures satisfying the quantitative elements include:

1) Complete physical count and documentation of all elements such as cash, inventories and fixed assets. The balance sheet date for this count was July 1, 1990.

2) Document the number of claims and other important facts to establish assets and liabilities.

Once a quantitative structure is assumed, values can be assigned to these quantities. Judgement can then be made to arrive at a value for properties, inventories and other items.

Valuation Principles

The complete revaluation of assets requires a deviation from the historic cost principle. Instead, values initially to be applied are reinstatement value, current market value, and value on realization.

The upper limit for valuation is the current market value, which is either the market value minus depreciation or the purchase price for a product of the same kind. Since most formerly state-owned companies could not keep up with the progress of western technology and necessary maintenance and repair of fixed assets was sorely lacking, additional consideration is being given to the uselessness of asset items.

Assets that can no longer be used or are fully written off are to be stated at their value on realization. This is derived by using the anticipated sales price less the accumulated costs.

The most important valuation principles applied in this process are:

Fixed assets:

- Intangible assets (e.g., goodwill, know-how, patent rights, copyrights) must not be recorded in the opening balance sheet unless they were acquired against payment and an accurate price is attributable.
- Land is valued according to special guidelines published by the government. Possible encumberances must be noted or accrued as liabilities. Replacement values have to be used for buildings, machinery and equipment. Here the accountants based their judgement on special reports by valuation experts.
- Buildings and inventories are generally valued at replacement or reproduction cost. If a market for buildings exists, the current market value may be reported.
- Accounts receivable and accounts payable that resulted from transactions before the monetary union are to be converted at a ratio of 2:1.
- Investments are to be reported according to the equity method. For shares and securities officially quoted on the stock exchange, the decisive value is the quotation at the balance sheet date.
- For other accruals, such as pensions, West German valuation principles applied.

Assets and Liabilities

Under normal circumstances, equity is established

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from the positive difference between assets and liabilities. However, due to the overvaluation of assets and the understatement of liabilities of former GDR enterprises, opening balance sheets resulted in negative equities. The legislators created transitional accounts to avoid this problem. They may be included in the opening balance sheet as balancing items if certain requirements are met:

- If liabilities exceed assets, a company can capitalize an interest-bearing compensation claim receivable (*Ausgleichsforderung*) due from its parent company, the *Treuhandanstalt*. However, this receivable is subject to approval by the TA. This approval will only be given if the company is deemed capable of continuing as a going-concern. A compensation claim liability (*Ausgleichsverbindlichkeit*) is accrued when net assets, including land, exceed fixed assets.
- Because East German companies have to record some accrued liabilities for the first time (e.g., provisions for environmental clean-up costs, an asset deferred accrued costs (*Sonderverlustkonto aus Rückstellungsbildung*) is also recorded. This balance sheet item has to be written off in subsequent periods as accruals are expensed.

Strategies for the Opening Balance Sheet

What are some of the strategies applied for the valuation of the opening balance sheet?

The law promotes the realistic revaluation of assets and liabilities. There are guidelines for upper and lower values.

Companies can apply one of two basic strategies within the limit of the law:

- to provide *maximum cash flow* for the growth of the business, or to
- show *early profits* and returns to stockholders

Under the cash flow orientation, high values are assigned to assets and low values to liabilities. The profit oriented method assigns low values to assets and high values to liabilities.

In the past, most German companies were interested in growth and cash flow generation.

Regardless of the strategy chosen, the new regulations add attractive tax incentives for investment in the eastern states. These incentives will encourage the shift of the investment stream from west to east and will have a long-lasting effect on the reporting of German companies with activities in the *new states*. □

Appendix

Incentive Program for Investing in Eastern Germany

Investment Allowance

Eligibility:

Companies subject to taxation under the Income and Corporation Tax Act (Einkommen- und Körperschaftssteuergesetz), or general partnerships and limited partnerships.

Requirements:

Procurement or manufacture of movable productive capital goods with significant depreciation, belonging to the fixed assets of a plant or factory located in the development region, providing they

- are not cars or aeroplanes,
- low quality capital goods or
- have not been used more than 10 percent privately

Allowance levels:

The investment allowance amounts to 12% of the procurement or manufacturing costs, providing the procurement or manufacture commenced after the 30th June 1990 and is completed before 30th June 1992.

This sum falls to 8% for the procurement and manufacture of capital goods after 30th June 1990 and before 1st January 1995, providing the goods had been ordered or put into manufacture before 1st January 1993.

Application:

Eligible firms must submit their application on an official form to the responsible tax office by 30th September of the calender year, following the fiscal year in which the investment was undertaken.

Remarks:

There is a statutory, legal entitlement to this investment allowance. The allowance is tax-free.

Investment Grant

Eligibility:

Investment projects in the industrial and commercial sector (a multitude of investments of varying duration and conception - movable and unmovable capital goods).

Requirements:

The investment scheme must promote the production of goods or the performance of services, which by their very nature are regularly sold nation-wide. However, some commercial sectors are excluded (e.g. retail trade, warehousing and transport sectors). The applicable regulations are laid down in the guidelines of the current edition of the government publication "Joint Challenge: Improving Regional Economic Structure" (Gemeinschaftsaufgabe "Verbesserung der regionalen Wirtschaftsstruktur).

Grant levels:

This is dependent on the type of project:

- Construction projects: up to 23%
- Expansion projects: up to 20%
- Reconversion or radical rationalisation schemes: up to 15% of the investment costs.

Due to the limited funds available, the level of grants may fall below these maximum limits. There is no legal entitlement to the grants and they are subject to tax.

Application:
The application must be submitted on an official form to the Economics Ministry (Wirtschaftsministerium) or one of its subsidiary branch offices of the particular federal state.

Remarks:
An investment grant can be claimed, irrespective of any investment allowances which may also have been granted.

Tax Breaks and Special Depreciation
Requirements:
Eligible claimants must be subject to tax under the Income and Corporation Tax Act, and have undertaken favored investments in the new federal states (procurement or manufacture of movable or immovable capital goods, belonging to the fixed assets of the company).

- Procurement, manufacture or expansion after 31st December 1990 and prior to 1st January 1995
- Initial down-payment and partial manufacturing costs are also favored
- Special depreciations for wear and tear (AfA) can be claimed in the year of manufacture or, optionally, over the succeeding four years.
- Straight-line depreciation is also possible.
- Productive capital goods that have been used more than 10% privately are excluded.

Application:
Special depreciations are taken account of within the framework of income and corporation tax assessment. The local tax office is the responsible authority..

Remarks:
Special depreciations can also be granted concurrently with investment allowances and investment grants.

Capital gains tax:
The trading capital tax and the capital gains tax will not be levied on company assets in the new federal states until 1993, amounting to a tax relief of 1.4% of the capital assets.

Tax-free reserves:
- If capital goods are transferred from the assets of a company located in the old federal states to the assets of a corporate enterprise in the new federal states, reserves equal to the value of the hidden assets can be formed and must be written off in 10 years.
- The losses incurred by plants in the new federal states can be offset in the 1990 taxation assessment.
- Similariy, initial start-up losses incurred by subsidiaries in the new federal states can be offset in the taxation assessment in the old federal states by the formation of a tax-free reserve. □

Source: Treuhandanstalt

Überblick

DM-Eröffnungsbilanz — Berichterstattung und Bewertungsfragen

Mit Inkrafttreten der Wiedervereinigung und Währungsunion wurde es notwendig, das Rechnungswesen in den neuen Bundesländern an die Gegebenheiten der westlichen Länder anzupassen.

Entsprechende Vorschriften sind in dem "Gesetz über die Eröffnungsbilanz in Deutscher Mark und die Kapitalneufestsetzung (D-Markbilanzgesetz- DMBilG)" und anschliessenden Änderungsgesetzen geregelt .

Ausgangspunkt der neuen Rechnungslegung war, die vorhandenen Aktiva und Passiva durch eine Inventur (Mengenerfassung) zum 1. 7 .1990 zu ermitteln und auf der Grundlage von Marktpreisen Bewertungen vorzunehmen.

Generell konnten historische Erfahrungen von 1923 ("Goldbilanzen") und 1948 ("Währungsreform") genutzt werden; aufgrund unterschiedlicher Wirtschafts-und Rechtssysteme war die Umstellung in 1990 jedoch schwieriger. Die wichtigsten Erfordernisse des DMBilG sind:

• Die Eröffnungsbilanz muss Grundsätzen ordnungsmässiger Buchführung entsprechen.

• Die Eröffnungsbilanz bildet die Grundlage für die Steuerbilanz (§50 DMBilG).

• Es besteht Prüfungspflicht für Eröffnungsbilanzen bei bestimmten Grössenordnungen der Unternehmen.

Ein detaillierter Zeitplan regelt die Vorgehensweise bis 1997.

Das planwirtschaftliche Rechnungswesen, das in erster Linie statistische Aufgaben zu erfüllen hatte, muss auf eine den handelsrechtlichen Vorschriften entsprechende Rechnungslegung umgestellt werden. Die Neubewertung der einzelnen Aktiv-und Passivposten hat dabei vorrangige Bedeutung:
zum Beispiel:

- Grund und Boden ist nach §9 Abs. 1 DMBilG mit dem Verkehrswert anzusetzen.

- Vorräte sind mit den Wiederbeschaffungs-oder Wiederherstellungskosten (Neuwert) zu bewerten, soweit nicht ein niedrigerer Zeitwert besteht.

Durch erhöhten Rückstellungsbedarf können Posten wie "Ausgleichsforderungen", "Ausgleichsverbindlichkeiten" oder "Sonderverbindlichkeiten" in den Bilanzen enthalten sein.

Entsprechend den Zielen des Unternehmens kann eine unterschiedliche Bilanzpolitik angestrebt werden. Primäres Ziel der Unternehmen in den neuen Bundesländern muss es sein, Kapital für weitere Investitionen zu schaffen. Deshalb dürfte eine liquiditätsorientierte Bilanzpolitik mit niedrigen Wertansätzen einer ertragsorientierten Bilanzpolitik vorgezogen werden .

Dies wirkt sich positiv auf die-Selbstfinanzierungskraft des Unternehmens aus und führt zur Reduzierung der Ertragssteuerbelastung. Die enormen steuerlichen Fördermassnahmen in den neuen Bundesländern sind im Investitionszulagegesetz und dem Gesetz über Sonderabschreibungen geregelt. □

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Die europäischen Medienmärkte in den 90er Jahren

European Media Markets in the 1990s

Mark Wössner
President and CEO
Bertelsmann AG
Gütersloh

It is obvious that the European media markets and Germany's media market in particular have become far more dynamic than the sceptics ever expected. And the prognosis for the 1990s is even better, given the growing demand for more diversity and quality.

In our increasingly diversified society, lifestyles are becoming more individual. This development doesn't necessarily mean a demand for more products, but rather a need for a wider variety. Increasingly, media companies will have to satisfy frequently changing tastes on a much broader scale. Programming with a high level of variety will be in big demand.

Media Markets are Consumer Markets

Growing consumer awareness will result in the media markets of the 1990s becoming consumer markets. Media companies will have to offer consumers a wider assortment of products. Because consumers are already faced with a flood of information and entertainment, the industry will have to better determine the consumer's needs, and identify how much disposable time they have.

The major challenge facing the growing media industry isn't hardware. There's plenty of equipment on the market and consumers are buying it. The real challenge for the media industry in the 1990s could prove to be software. In the 1980s, West German programming was significantly handicapped by the lack of private commercial broadcasters — not to mention eastern Germany where the situation of private broadcasting is still in a stage of development. The following statements therefore refer to the western German markets.

Despite the fact that the media markets of the 1990s will be fiercely competitive . . . they will be highly profitable.

In the 1990s, with several private stations operating in the country, we are now experiencing a strong programming market, with higher demands placed on quality and variety. The same applies to the other forms of media such as books, magazines and music.

Despite the fact that the media markets of the 1990s will be fiercely competitive, we also predict that they will be highly profitable. As a result, we expect several interesting structural changes. Already we are experiencing a trend away from mass communication, such as publications with million circulations, toward individual, market-segmented media. Driving this development are the different needs of the media consumer, both in terms of technology and advertising.

Television: the Market has Rewritten the Script

From the point of view of private commercial broadcasters, the most important developments from the 1980s now influencing the 1990s are:

- In 1987, West German private broadcasters reached an agreement with the state governments to harmonize media policy between commercial and public service broadcasters.
- Five private channels are now offering full programming nationwide and are about to post their first profits. This may be a small step in terms of television programming, but it is certainly a large step with regard to a fully liberalized media policy.

Still, the lopsided competition between the commercial and public service broadcasters has at least one advantage: commercial stations have forced the public broadcasters to be more creative. The viewers who are already benefiting from a much richer diversity in programming, ultimately will decide who should lead them into an era of television.

"Infotainment" Characterizes Future Programming

The real competition today among the public service and commercial broadcasters is not for range, but for ratings. By and large, satellites and cable have bridged the gap in geographical coverage. What this means is that by the mid-1990s the quality of programming and not the infrastructure will determine the ratings of western Germany's largest broadcasters.

The programming structure of the large broadcasters will be similar. Western German television will be marked by a high degree of entertainment in the 1990s. Nevertheless, broadcasts with an emphasis on information will become increasingly popular. In the U.S., for instance, news programs are experiencing a strong comeback. We are witnessing the same development in western Germany. In terms of costs, news programs cost one-third what entertainment programs do. *Infotainment* has become the new buzzword for this type of programming. Bertelsmann is just preparing the start-up of such an *infotainment channel* in addition to its interests in two other nationwide television channels.

For many media products, there will not be a unified group of 325 million European consumers.

Apart from the large broadcasters, a number of smaller channels will carve out a niche for themselves in the coming years. They will tailor their programming to the individual tastes of their target groups.

The Advertising Market and Electronic Media

In western countries, the advertising market suffered loses due to situations like the recent War in the Gulf. However, in Germany, the advertising market grew by approximately 5 percent because of the unification of East and West Germany. Altogther, it is anticipated that the introduction of the European market will provide a new impulse for long-term growth.

Although the advertising market experienced difficulty, the television business accounted for an increase of over 20 percent. By the year 2000, television advertising is estimated to double, marking an above average increase.

Television advertising in western Germany, compared to other countries, is underdeveloped. It accounts for only 13 percent of the nation's total advertising market, compared to 35 percent in the U.S., 32 percent in Spain and 47 percent in Italy.

A glance at the development in western Germany's advertising market over the past several years reveals a structural change in favor of broadcasting, especially the commercial channels. This positive development among the commercial stations will continue, and their actual price level will offer plenty of room to grow.

Coexistence of the Electronic and Print Media

Despite the relatively strong emergence of the electronic media in recent years, the print media nevertheless account for approximately 75 percent of total advertising expenditures in western Germany.

Although this percentage will drop in the future, the print media are far from being *washed up*, and for the following reasons:

1. No other form of media matches the same high-level usage of the print media, which can be *consumed* when and wherever the reader decides. In addition, newspapers, magazines and other publications offer sufficient space to provide in-depth background information.
2. Reading is an active process, fostering one's thinking capabilities. This is all the more important considering society's demand to be more actively involved. The new catchwords: individual values, self-fulfillment, leisure time and further education.
3. Advertisers are seeking high-quality contact with little waste. They are planning their advertising budgets accordingly.

In short, the various demands of consumers and the different objectives of advertisers will allow the electronic and print media to coexist. And, the predicted growth of advertising in western Germany will certainly help smooth over any ripples.

Europe 1993

For a start, the popular saying "all business is local" will remain valid even after the planned single European market becomes reality in 1993. For many media products, there will not be a unified group of 325 million European consumers.

Language remains one of the the major obstacles. A book can be written in France, published in Germany and

printed in Italy, but that does not necessarily make it a pan-European product, appealing to Europeans across the Continent. The one European-language *Esperanto Book* remains a dream.

Apart from language, there are other psychological and cultural barriers hindering the international marketing of a number of media products. Moreover, all the talk about borders being abolished and establishing a common European identity might have just the opposite effect. Clinging to their regional customs, many Europeans may seek even stronger local identities.

To be sure, European consumers aren't about to become homogenized. Thus, companies trying to reach them through advertising will have to tailor their strategies accordingly. International companies are well advised to devise global strategies that can be implemented on a national and even a regional basis.

Our experience has taught us that success with a particular product in one country doesn't guarantee us the same success in another country. Most multinational media companies, offering highly culture-sensitive products, rely heavily on their experience in their various national markets to achieve success.

Experience, infrastructure and managerial competence as well as freedom to make decisions locally are the factors to succeed in the individual European markets. Being sensitive to cultural differences will guarantee the existence of both large and small publishing companies in the future.

I am convinced, in fact, that there will be a wide range of small, medium and large media companies operating throughout Europe as well, all of them in a position to offer both consumer and special interest publications.

More than ever before, media companies need to be organized and structured so that they can produce for

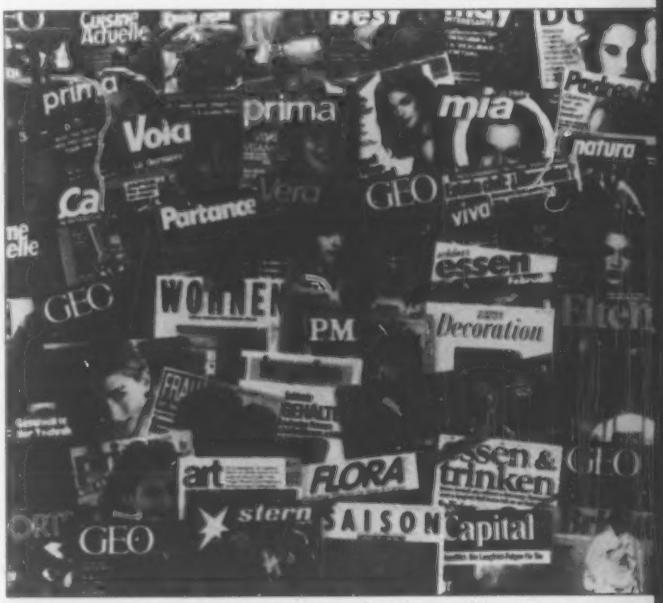
... the criticism of the contractual process now going on in the media world is not in line with the realities of our changing global media market.

local markets. With regard to large media companies the regional markets are best served not by large bureaucracies, but by decentralized, local subsidiaries.

I do not foresee there being a European daily or weekly newspaper, or even pan-European television for that matter. However, I do see the possibilities for European-wide magazine mark 'ing. A magazine such as Gruner + Jahr's *Prima* with a few modifications can be distributed throughout Europe without losing its national identity.

Cultural traditions, nationalistic egos and struggles over competence at all political levels will ensure that Europe may someday be free of border gates but nevertheless full of language barriers.

Certain media products, such as movies and music, can be marketed both regionally and nationally as well as internationally, requiring a global strategy. Companies targeting international markets must be able to offer composers, producers, famous celebrities and artists an



European-wide magazine marketing is already a reality.

international audience. Multimedia, international marketing expertise plays a key role in this area!

This demands organization on a large scale. Smaller media companies often lack sufficient funds and infrastructure to do so. In this respect, the criticism of the contractual process now going on in the media world is not in line with the realities of our changing global media market.

The rise of commercial television in West Germany would never have come about had it not been for the risks taken by several large publishing companies. Many of the private channels have received strong support from these large, financially strong publishing houses. Had these channels failed, the alternative would have been a continuation of the crusty monopolistic public structures or private western German television that would have been produced by Berlusconi or Murdoch.

Global Competition For Exclusive Rights and Movie Archives

Some 600,000 hours of television programming will be needed yearly in Europe during the 1990s. Already there is a battle raging to acquire exclusive rights and movie archives. Co-productions and multi-use of programs and rights will keep costs down.

The world's programming market is dominated by the Americans, largely because they accept higher prices than the Europeans. Still, there is a growing demand for European productions, especially with regional content. However, producers want to see profits. This makes sense because the more lucrative the European market becomes for television, the more attractive it will be for these producers to form alliances for co-productions.

Many Americans have become nervous, worried about

"Prima", for example, with a few modifications can be distributed throughout Europe without losing its national identity

their business in the next century. Spectacular acquisitions and mergers, the growing trend towards mega-companies with horizontal and vertical business activities characterize the current trend in the media industry. Unbelievably high prices are being paid for book, music and movie rights, often with little likelihood of return on investment. In many cases, this mad rush to buy and sell doesn't make sense and frequently has caused considerable friction.

The U.S. media industry, one of the world's leading exporters, is being confronted with a growing number of *foreign investors*, and this trend is now becoming apparent in Europe as well.

However, Europeans should not underestimate the potential of the American media. The U.S. media have highly attractive movie archives, rights, expertise in mass-entertainment products, music creativity and a vast wealth of professional artists, not to mention plenty of capital and a drive to expand.

But, the American media have their weak points too. One, they often don't have the applied sensitivity and feeling for multi-cultures, different mentalities and individual taste. They view Europe as unified, a development many Europeans themselves don't expect to see in 1993. They are not internationally structured companies because their production is mostly concentrated in one country. Only their products are marketed on a global scale. True internationalism is more than just cross-border marketing.

In addition, the American media are partially locked out of the European television market because all European nations follow a *closed shop* media policy by setting quotas on programs from America.

Mega-trends in Media Marketing

In my opinion, there are six major trends effecting media markets and companies:

1. Communication markets will continue to grow, resulting in fierce competition. Crucial to the commercial success of a media company is program creativity, an international structure and media know-how in individual product markets. The former is much more important than any "multi-media" identity.
2. New developments in technology demand that people be capable of handling highly sophisticated hardware. A new generation of consumers is emerging, a group of people who, each day, are being confronted with new electronic gadgets. Such advances in telecommunications, as Integrated Services Digital Network (ISDN), and other electronic devices in private communications represent considerable market potential.
3. A flood of information, fierce competition in the leisure market and a better awareness of media products will lead to selective usage on the part of consumers, causing a fragmentation of the media markets. In the future, general interest publications and the public service television networks will be less popular than life-style magazines and special interest publications.
4. The electronic media and the print media will continue to coexist. Both have their advantages and disadvantages for consumers and advertisers alike. In short, they complement each other. Television will be a medium used for quick viewing, offering swift, current information. For cost reasons, it will be targeted at mass audiences, affecting the quality and variety of programming. By contrast, the print media can focus in on select market segments.
5. Demand for programming and broadcast rights will outweigh supply in the 1990s. High-quality software will also be in big demand. Media companies will be competing to attract top artists, celebrities and entertainers. This situation will drive up the prices for music and movie rights as well as the fee for authors, composers and producers. The same scenario will occur with major sporting events.

Crucial to the commercial success of a media company is program creativity . . .

6. I don't agree with those who say that the media markets of the 1990s will be dominated by a handful of companies. The media industry of the future will have three layers: a group of international companies specialized in producing and marketing large and expensive software products for the masses; a number of relatively large publishing companies with products trimmed to meet regional demand; and a host of small, flexible firms offering a vast wealth of creativity.

This structure will keep the media landscape in balance. Companies at the top of this structure will change through acquisitions and mergers. New companies will be established at the other levels. All of this is part of a dynamic process that has little room for monopolistic structures. It will offer quality and variety in the best interests of consumers. □

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Überblick

Die europäischen Medienmärkte in den 90er Jahren

Es ist offensichtlich, daß die europäischen Medienmärkte, insbesondere auch der deutsche Medienmarkt sich als dynamischer erwiesen, als Skeptiker je vermuteten. Berücksichtigt man die steigende Nachfrage nach Vielseitigkeit und Qualität, ist die Prognose für die 90er Jahre noch rosiger.

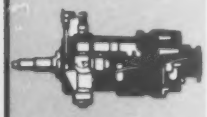
Das zunehmende Interesse der Verbraucher wird sich dahingehend auswirken, daß die Medienmärkte in den 90er Jahren zu einem Verbrauchermarkt werden. Medienkonzerne werden der Öffentlichkeit eine große Anzahl von Produkten offerieren müssen. Da der Konsument sich bereits einer Flut von Untterhaltung und Information gegenübergestellt siehtt, wird die Industrie sich darauf konzentrieren müssen, den wahren Bedarf sowie die freie Zeit des Kunden zu identifizieren.

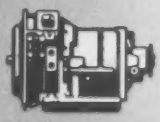
Abgesehen von der Tatsache, daß sich auf den Medienmärkten der 90er Jahre ein scharfer Wettbewerbskampf abspielen wird, versprechen sie doch höchst profitabel zu werden. Als Ergebnis erwarten wir einige interessante strukturelle Änderungen. Ein Trend weg von der Massenkommunikation wie Publikationen mit Millionenauflagen, zu einem mehr auf den individuellen Geschmack zugeschnittenen Marktanteil der Medien. Diese Entwicklung wird von den verschiedenen Ansprüchen des Konsumenten gesteuert, und zwar was sowohl die Technik wie auch die Werbung betrifft.

Nach meiner Meinung existieren sechs dominierende Entwicklungen, die die Medienmärkte und die Industrie betreffen.

1. Der Kommunikationsmarkt wird sich weiter vergrößern und zu einem starken Konkurrenzkampf führen.
2. Neue Technologien verlangen von dem Verbraucher die Beherrschung anspruchsvoller Hardware.
3. Eine Flut von Informationen, ein erbitterter Konkurrenzkampf auf dem Freizeitmarkt, und ein besseres Verständis der Medienprodukte werden zu einer selektiven Auswahl bei dem Verbraucher führen.
4. Die Elektronik- und Druckmedien werden weiter koexistieren.
5. Die Nachfrage nach Programmen und Senderechten wird das Angebot in den 90er Jahren weit übertreffen.
6. Ich stimme keineswegs mit denen überein, die behaupten, daß der Medienmarkt in den 90er Jahren von einer Handvoll von Unternehmen dominiert wird.

Diese Struktur wird die Medienlandschaft im Gleichgewicht halten. Durch Aufkäufe und Zusammenschlüsse werden die führenden Unternehmen sich ändern. Neue Unternehmen werden sich auf den übrigen Stufen etablieren. All das ist Teil einer dynamischen Entwicklung, die keinen Platz für monopolistische Strukturen hat. Sie wird im besten Interesse des Verbrauchers Qualität und Vielseitigkeit anbieten.





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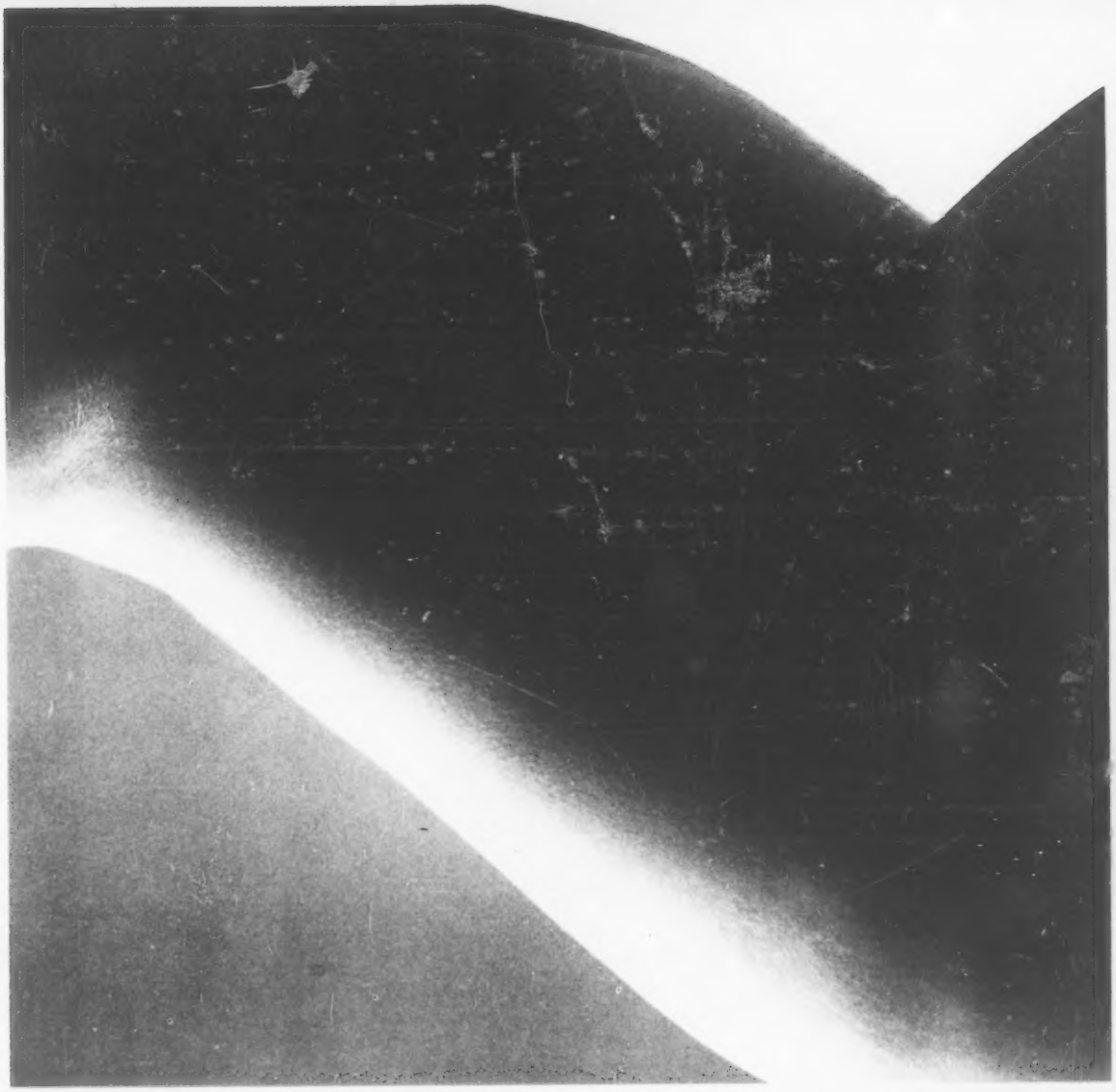

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Das Europäische Haus — eine ökonomische Herausforderung für die europäische Wirtschaft

Building the Common European Home: An Econonmic Challenge for European Industry

Dr. Jürgen Strube
Chairman of the Board of Executive Directors
BASF Aktiengesellschaft
Ludwigshafen

German unification and the completion of the Single European Market continue to make headlines. In the political and economic arena concepts have been and are being developed with the aim of seizing the opportunities and responding to the challenges linked to these events.

BASF, too, started early to prepare for the increased competition anticipated for the Single European Market. We adjusted our strategy and organization accordingly. Moreover, with the acquisition of Synthesewerk Schwarzheide we have become deeply involved in eastern Germany.

However, we must not confine the scope of our deliberations and actions to Germany and the Europe-to-be in 1992. The *three days in August* demonstrated all too clearly that Western, Central and Eastern Europe are historically, politically and economically a single entity. Peace, freedom and prosperity in Western and Central Europe are inseparably linked to the further development of Eastern Europe.

The European Economic Area

As Walter Eucken, the economist, suggested when he spoke of all systems being interdependent, *The Common European Home*, created in the political sphere, must have a *European Economic Area* as a complement. This European Economic Area, including the European Community as well as the EFTA and former COMECON

The European Economic Area is home to more than 700 million people, more than the United States and Japan combined.

countries, extends from Portugal to Russia and encompasses the rich raw material deposits in the Russian part of Siberia. In my opinion, the economic development of this area is a major challenge of the decades to come.

With the results of the Luxembourg agreement signed recently between the members of the EC and the EFTA, important progress for the realization of this goal was achieved. *Affiliate memberships*, particularly for the post-communist democracies of Eastern Europe could be a second step.

Based on a poll of more than 11,000 manufacturing companies, the Cecchini Report, initiated by the European Commission and issued in 1988, indicates that the formation of the Single European Market could spur additional real economic growth of five to six percent and create more than two million jobs.

Forming the European Economic Area is an even more formidable challenge than completing the Single European Market, but in compensation offers far greater

opportunities for all participants in the effort. If the Eastern European economies were successfully integrated into the free market system, the entire economic area could enjoy growth rates comparable to those in the Far East.

In decades to come, a challenge of such magnitude cannot be met by a single country. The industrialized western world has to join in the effort. This is an issue of burden sharing. No one gets a free ride on this historic journey.

What would happen if this European Economic Area were not developed?

The gap between rich and poor would widen, intensifying social tensions and political instability. Affluent countries would have to cope with rising waves of immigrants, driven from East to West by hunger and joblessness.

We have no choice but to bring the former centrally directed economies of Eastern Europe into the European mainstream without, however, losing our own momentum. The problems facing the European Economic Area appear to be daunting, but the opportunities are enticing.

Important Data on the E.E.A.

The European Economic Area is home to more than 700 million people, more than the United States and Japan combined.

Its gross national product is already bigger than that of the United States. However, in terms of per capita GNP, the European Economic Area still lags far behind the United States and Japan and gives some indication of the pent-up demand in Eastern Europe.

More than 20 percent of the Eastern and Southeastern European labor force is still engaged in agriculture, but less than 40 percent in the service sector. It is evident that a structural change is overdue.

The former COMECON countries are still not benefiting from the international division of labor since they are only marginally integrated into world trade. By contrast, the nations in the European Community import and export goods valued, yearly, per capita at DM 11,600. The equivalent for the U.S.S.R. is DM 1,380.

The former COMECON countries harbor a huge pent-up demand, which will release dynamic forces of individualism.

The European Economic Area has more natural resources than any other region in the world. It has 13 percent of the crude oil and as much as 48 percent of the known natural gas reserves. The Soviet Union alone possesses 38 percent of the world's gas reserves.

Yet, per capita consumption of chemicals in Western Europe is more than double that of the former COMECON countries.

BASF sales reflect these circumstances. In the European Community they amount to DM 63 per inhabitant, but to just DM 2 per person in the former COMECON. We expect substantially higher sales in that area, once the consolidation phase is complete.

The former COMECON countries harbor a huge pent-up demand, which will release dynamic forces of individualism. Most people are eager to improve their standard of living and welcome the opportunity to earn more money, to take advantage of the economic and political freedom and to expand their horizons. All of these factors provide a strong impetus for economic development at above-average rates.

Deregulation of Western Europe's natural gas market is long overdue.

The governments of the former COMECON countries are currently establishing the framework for a free market. In spite of initial difficulties, liberalization is well under way. Investment laws are designed to promote the influx of foreign capital. Customs regulations have been patterned on the Western model. Non-tariff barriers have been removed.

Privatizing state-owned industries still poses problems. Making eastern currencies fully convertible is the agreed objective, but is still proving elusive.

Western Europe Reaches Out

The West European nations are expected to aid their eastern neighbors. Moral support, however, is equally important. In this regard the CEFIC position paper, issued in March 1991, defines three major contributions by the West European chemical industry to the development of Eastern Europe.

Joint projects for training *Eastern* managers to face the challenges of the free market are recommended. Providing support for environmental protection and industrial safety is another proposal. Finally CEFIC urges us to contribute to the economic recovery and to privatization through our investments in Eastern Europe.

Additionally, we will have to open our markets to East European products, particularly agricultural goods and raw materials, like coal and natural gas. Deregulation of Western Europe's natural gas market is long overdue. Third-party access to pipelines has to be granted under specific conditions, thereby increasing the number of competitors in the natural gas market. This market is also an opportunity for the U.S.S.R. to improve its balance of trade, enhancing its ability to import western goods.

The *strategic alliance* BASF has formed with Gazprom, the world's largest natural gas producer, based in the U.S.S.R., anticipates the historic development towards the European Economic Area. This joint venture intends to supply additional quantities of natural gas from Siberia to Germany and Western Europe, exceeding the volume under existing contracts. In eastern Germany, natural gas will replace lignite as the primary energy base, substantially reducing pollution.

While the new German Federal States are located at the eastern border of the European Community, they

occupy a central position in the European Economic Area. It is not only geography that gives the new states the opportunity to function as a bridge to eastern Europe.

Disasterous Consequences of COMECON Economics

The experience of changing from a centrally directed economy, from a closed market environment with rationing, allocation and shortfalls, to an open customer-oriented market with its overabundance of supply and stiff competition bridges the intellectual gap between the eastern and western worlds.

The characteristics of a centrally directed economy are also reflected in the structure and performance of the chemical industry in eastern Germany.

Dominant features of the East German chemical industry were:

- autarchy with a preference for integration of operations within the German Democratic Republic (GDR);
- one-sided orientation of its trade to COMECON countries;
- central planning and control of operations with a tendency to overstate performance;
- dogged reliance on domestic raw materials, as for example, lignite;
- a large proportion of outdated production facilities;
- tieing modern plants to outdated sites neglecting economies of scale;
- disregarding energy and raw material efficiencies;
- accepting substantial environmental damage;
- massive overstaffing with significantly lower productivity; and
- too many commodities, not enough specialties.

In a nutshell, the theories of Adam Smith, with the emphasis on the division of labor, were heretical to the economic policies of the former GDR. As a result that nation had no wealth.

. . . the theories of Adam Smith . . .were heretical to the economic policies of the former GDR. As a result that nation had no wealth.

The German currency union and the break up of COMECON had catastrophic consequences for the economy of the former GDR:

- Demand for domestic products disappeared from one day to the other.
- Exports to COMECON countries have declined sharply since orders are now invoiced in convertible currencies, which customers in COMECON countries lack.
- Moreover, international competition has intensified in what was the COMECON area.

As a result of the German currency union, exports from the new German Federal States to Western countries became uncompetitive if priced at cost. Goods that had been successful in the lower end of the market were suddenly repositioned by their pricing to a higher category.

An Example of Eastern Opportunities

No doubt, you would like to know why BASF acquired Schwarzheide in spite of such difficulties. What competitive advantages does a site like Schwarzheide offer?

The purchase of Schwarzheide strengthens our polyurethane business. The acquisition raises our market share in Europe and broadens the basis for our business in Eastern Europe.

In Schwarzheide we produce polyurethanes, including their basic products and precursors. The plants were

Its central location in the European Economic Area turns the Schwarzheide site into a strategic asset for BASF.

erected in the early seventies and are well maintained. Some of the facilities were built and operated under license from Elastogran, a BASF subsidiary.

For this reason Schwarzheide supplements the production and marketing operations of our Polyurethane Operating Division well.

Its central location in the European Economic Area turns the Schwarzheide site into a strategic asset for BASF. It puts us closer to our customers in the former GDR and Eastern Europe, specifically the building, automotive and plastics processing industries.

Schwarzheide is a site suitable for integrated chemical manufacturing with large reserves for expansion. The overall site covers 500 hectares. By comparison, our site at Antwerp has more than 600 hectares.

The Schwarzheide workforce is well trained and motivated, by international standards. Since the site has been a chemical production base for a long time, its operations are well accepted by the local community. That was proven when we applied for our first project approvals with the authorities. The applications were expedited quickly.

The Schwarzheide site lies adjacent to the Berlin-Dresden autobahn and is linked to the international rail network. The Dresden airport is only 30 minutes away by car. The site has a well-fuctioning effluent treatment plant, waste incineration and a landfill.

Investment incentives in combination with special tax-allowances yield aggregate benefits of up to 45 percent. In addition, special write-offs are permitted in the first year and income tax credits are granted. Several of the benefits will only be in effect for a few years. However, their contribution will help the site over the critical initial years.

We want to capitalize on the site's advantages and make Schwarzheide a production complex on a par with European standards by the mid-nineties. For this purpose we are investing DM 600 million in the modernization and expansion of the existing plants.

In addition we are analyzing all European projects for

their suitability for Schwarzheide. Such probing has already yielded its first dividend. The new plant for the production of water-based automotive coatings, representing an investment of DM 86 million, will be built at Schwarzheide. The authorities handled the permit process for the project rapidly. Construction has already started.

Altogether we will be investing about DM 1 billion in Schwarzheide in the next few years.

Nevertheless, the Schwarzheide site also has some distinct disadvantages. In the past year it put our entrepreneurial skills frequently to the test. We had expected these challenges at the time of acquisition.

New Problems and Solutions

Some of the problems illustrate typical experiences encountered in going into business in the new states. Other difficulties tend to be exaggerated, particularly outside Germany. Let me mention a few.

Acquiring a chemical site anywhere in the world nowadays invariably involves the question of liabilities for contamination. The Treuhandanstalt — in consultation with the Federal German Authorities — substantially released BASF from potential public and private liability claims based on the polluter-pays principle. Since Schwarzheide was the first acquisition by a Western chemical company in the former GDR, this sollution has set the pattern for subsequent transactions.

Closing down the major sources of pollution has improved the situation. As a result, dust emissions were halved in the period from the end of 1989 to the end of 1990. The SO_2, NO_x, CO, fluorine, hydrochloric acid and solvent emissions were reduced significantly.

At Schwarzheide, we have already modernized the power plant and converted it from lignite to natural gas.

Untreated waste pours into a lake near the eastern German city of Bitterfeld, a major chemical center.

While we are on this subject, let me add a fundamental observation: I think that there is an urgent need to reconsider priorities in environmental policies. For the next few years the standards of environmental protection in the Western States of the Federal Republic should not be raised substantially. Our scarce resources should be allocated where they yield the highest returns for man and nature. In the new states investment in environmental protection pays a far higher dividend than such an investment in Western Germany.

The Eastern Workplace

Purely in terms of economic theory, unemployment in the east is an inevitable byproduct and might even be considered an *encouraging sign* of structural changes now taking place. Unproductive, internationally uncompetitive jobs have to be eliminated as swiftly as possible in order to shift manpower to the urgently needed build-up of an efficient service sector.

However, viewed politically and socially, the iminent mass unemployment poses a serious problem. Make-work programs and make-work companies are tools for relieving social and political pressures. But essentially they are only stop-gap measures which must not lead to an unwanted slow-down of structural adjustment.

The euphoria prompted by unification was quickly replaced by the soberness of everyday life.

It is crucial to give the workforce in Eastern Germany the opportunity to receive training and to encourage flexibility and mobility. The New States must not become the poorhouse of the Republic. Consequently BASF participates in a make-work company at Schwarzheide. In addition we have expanded our training program at the Schwarzheide plant and offer young people from Schwarzheide training positions at Ludwigshafen.

Unemployment in the New States has contributed to dampening the relationships between Germans in East and West. The euphoria prompted by unification was quickly replaced by the soberness of everyday life. A survey commissioned for the news magazine *Der Spiegel* revealed that half the East German population has felt a greater estrangement between East and West Germans *since unification*.

65 percent of West Germans and 70 percent of East Germans recognize major differences between each other. According to the poll, the popularity of East Germans ranks *equal to that of the Russians* in West Germany. Similarly, the level of empathy for West Germans has dropped decisively in East Germany.

This sobering effect was to be expected following the stormy, emotional events in 1989 and 1990. The situation harbors opportunities for foreign investors. In negotiations with East Germany, West Germans may have the advantage of speaking the same language, but they are hardly being favored by empathy.

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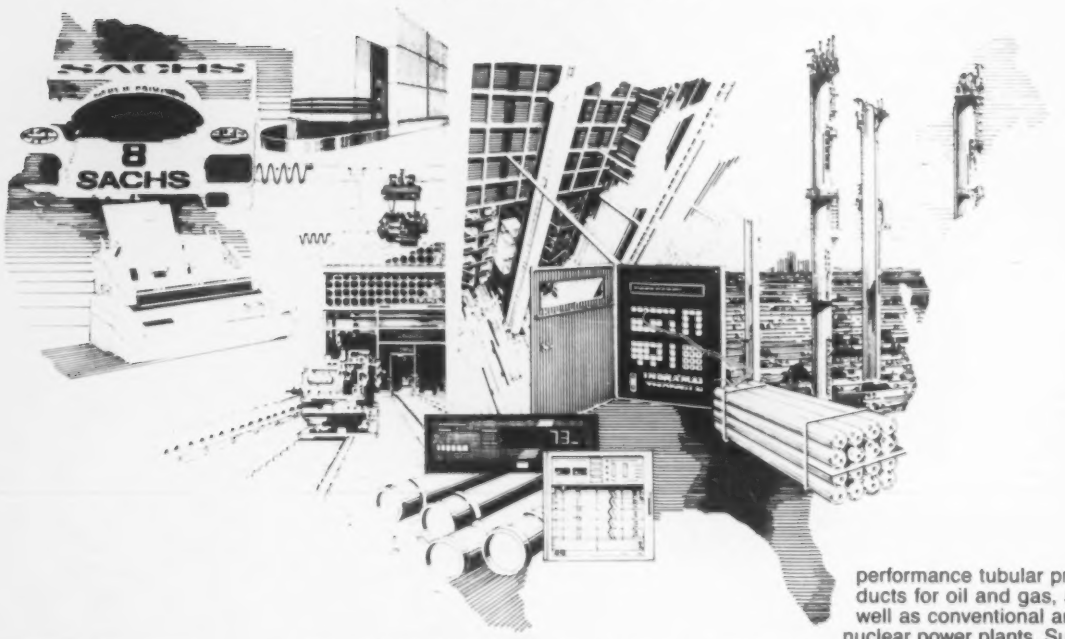

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A statue of Handel in the Saxony-Anhalt city of Halle. The state is the most important chemicals producer in eastern Germany.

Unemployment will rise and the necessary structural adjustments will be made more difficult if the gap between wage and productivity increases continues to widen in the New States.

Until the end of 1991 the chemical industry in Eastern Germany has a labor contract based on the West German wage structure. The contractual wages represent at most 55 percent of the western standard. In contrast to other industries, the chemical industry did not provide for automatic raises towards the West German level.

Still, in a few years eastern wages will approximate to the West German standard.

But even then, effective wage levels will be lower in the new states than in many West German companies; BASF Aktiengesellschaft, for instance, pays wages which are on the average 20 percent higher than those under industry-wide contracts.

Aquisitions Through the Treuhand

Many potential investors, particularly those outside Germany, have reservations about the Treuhand, about the capabilities of the public authorities and about the opening balance sheets of East German companies to be acquired. Based on our experience, these reservations are not warranted.

It is the Treuhand's assignment to privatize the former GDR's state-owned businesses. In some instances the Treuhand itself restructures companies for further privatization. If restructuring or sale are not feasible, the business has to be liquidated. In tackling these problems the Treuhand has to prove its skills, flexibility and imaginative approach. It is making every effort to encourage foreign investors.

Under no circumstances should the Treuhand subsidize permanently businesses that lack competitiveness. If it did, the employees of such companies would become beneficiaries of the Treuhand's largesse and unsubsidized competitors might be driven into bankcruptcy.

Administration in the New States functions better each day. Until now it has been our experience at Schwarzheide that all applications submitted for approval have been handled speedily and smoothly.

In 1990 companies in the New States prepared their opening balances with the objective of stating assets and liabilities truly and fairly.

Production plants and administrative units in the GDR used to hide their shortcomings systematically. The assets were padded, for example, by means of extremely long depreciation periods which did not correspond to the actual loss of value. They undervalued liabilities, for instance, simply by neglecting to make provisions for risks and obligations. As a result, lustrous balance sheets glamorized the operations of rusting plants and undercapitalized companies.

Opening balances available up to now have revalued the assets based on principles applicable in the West and a very critical approach. Liabilities are shown in the opening balances to the fullest reasonable extent.

Opening balances are suitable for providing foreign investors with the required insight into the true and fair value of companies to be acquired.

The Chemical Industry in Eastern Germany

The disadvantages of the site I have enumerated test the flexibility and steadfastness of our management considerably. It is also necessary to be sensitive to the special conditions under which our new employees and the neighboring communities live. Our employees at the site are highly motivated. In addition, we had a stroke of luck - or you might call it successful long-term personnel planning - insofar as the head of Elastogran GmbH, our polyurethane subsidiary, was born near Schwarzheide and grew up there. When Dr. Dehmel took charge of BASF Schwarzheide GmbH in October 1990, he was a local boy who had not only made good, but returned to help in rebuilding that part of the world where he was born. The local employees and population appreciate his personal involvement greatly.

Under no circumstances should the Treuhand subsidize permanently businesses that lack competitiveness.

Schwarzheide has been part of the BASF Group for almost a year. Many of the site's disadvantages that I have mentioned are of a temporary nature. We are confident that we can handle the problems and that we will succeed in making this site internationally competitive.

What, however, will happen to the rest of the chemical industry in Eastern Germany?

The survival of the major chemical sites has been given a political guarantee. That does not necessarily apply to the legal entities, but rather to the jobs in the chemical industry at those traditional centers: Leuna, Buna and Bitterfeld. However, in the medium term no more than 120,000 to 150,000 jobs will be left of the former 300,000.

Even these jobs need new investment to make them competitive.

The growth potential I have outlined for the European Economic Area and the long-term advantages of a site like Schwarzheide should also prove to be an incentive for other chemical companies to consider investments in the new states of the Federal Republic.

... chemical industrial parks have proved successful in Brazil, the United States and Spain.

You might be surprised that BASF is inviting competitors to its own backyard, but if the chemical industry fails to generate competitive jobs in these traditional centers, the shortfall of jobs will be compensated by permanent subsidies on political grounds. This would cause a serious distortion of competition. Nationally and internationally the players would no longer be performing on an even playing field.

It is not likely that an investor would want to take sole responsibility for one of the major sites in Leuna, Buna or Bitterfeld. The Treuhand's efforts to develop, together with interested investors, industrial parks devoted to chemicals at these traditional centers are to be welcomed. Such chemical industrial parks have proved successful in Brazil, the United States and Spain. Such a park is based on the concept of sharing the risks. Several investors would share, for instance, the use of environmental protection facilities, power plants, training facilities and infrastructure as well as large-scale upstream production plants. Each participant then builds his downstream plant in order to serve the market's needs for chemical specialties.

These chemical industrial parks can be compared to condominiums in an apartment house. Everyone owns his own place and shares the costs for keeping the facilities functioning proportionately. Such chemical industrial parks would also serve as a focal point for further economic growth of the area.

Spill-over effects would stimulate added investments in other industries and create new jobs. Suppliers and customer industries such as the building industry would settle near the chemical producers. It would also facilitate the establishment of an efficient service sector.

We know from our experience in West Germany that for each new job in the chemical industry at least one other is either created or maintained in another sector.

The chemical industry in the new states of the Federal Republic could thus become a model for transforming other centrally directed unproductive industries into participants in the open market of the international division of labor. □

October 31, 1991

Überblick

Das Europäische Haus — eine ökonomische Herausforderung für die europäische Wirtschaft

Mit dem Zusammenbruch der kommunistischen Systeme in Osteuropa hat der Begriff des Europäischen Hauses eine völlig neue Dimension gewonnen. Nicht nur die Bildung des Gemeinsamen Marktes, sondern die Integration der EFTA wie auch der ehemals kommunistischen Länder in die Gemeinschaft, ist das Ziel.

Die politische Gemeinschaft bedarf aber auch eines ökonomischen Raumes, dessen Bildung ungleich schwieriger sein dürfte, als die des Binnenmarktes. Wenngleich dies die größere Herausforderung sein dürfte und andere Risiken beinhaltet, so birgt sie doch auch bis vor kurzem noch für unmöglich gehaltene Chancen in sich. Glückt sie, entsteht ein Markt von Portugal bis nach Rußland, der selbst die Bodenschätze Sibiriens mit einschließt.

Es lohnt sich, diese Herausforderung anzunehmen, denn die Gefahren, die entstünden, wenn die Bildung dieses Marktes nicht gelänge, wären ungleich gefährlicher als die bestehenden Risiken. Der Gegensatz zwischen arm und reich würde noch größer werden mit der Folge großer Flüchtlingsströme. Die soziale Struktur wäre ebenso wie die politische Stabilität gefährdet.

Die ersten Schritte zur Bildung dieses Marktes sind bereits getan: In Luxemburg haben die EG und die EFTA ein Abkommen getroffen, eine Mitgliedschaft könnte der zweite Schritt sein. Die ehemaligen COMECON-Länder haben die Weichen für die Umgestaltung ihrer Wirtschaft weg von einer zentralistischen Führung hin zu einer freien Wirtschaft gestellt und treffen die Vorbereitungen für einen offenen Markt.

Dies alles kann nicht ohne die Hilfe der westeuropäischen Länder vor sich gehen. Die Ausbildung des Managements, Finanzhilfen, die Öffnung des Marktes für Produkte aus dem Osten sind nur einige von vielen Möglichkeiten, um dem Osten auf die Beine zu helfen. Der Bundesrepublik Deutschland an der Schnittstelle zwischen Ost- und Westeuropa kommt dabei eine Schlüsselstellung zu.

Dies bedeutet aber auch eine Herausforderung für die Industrie, wie am Beispiel der BASF und dem Synthesewerk Schwarzheide dargestellt wird. Der Autor zeigt die Risiken und Probleme, Chancen und Vorteile des Engagements in der ehemaligen DDR, das symbolhaft für ganz Osteuropa sein kann, an diesem konkreten Fall exemplarisch auf. Alte Eigentumsansprüche, Umweltverschmutzung und veralteter Maschinenpark seien nur als Stichworte genannt. Gleichzeitig bedingen die großen sozialen und ökonomischen Kontraste zwischen Ost und West ein sensibles Vorgehen, sollen die Gräben zwischen beiden Seiten nicht noch vertieft werden. Das Engagement westdeutscher Firmen bei der Wiederbelebung der Wirtschaft und die Arbeit der Treuhand bei der Privatisierung von ehemaligen Staatsbetrieben mag als Modell für den Wiederaufbau von Osteuropa dienen. □

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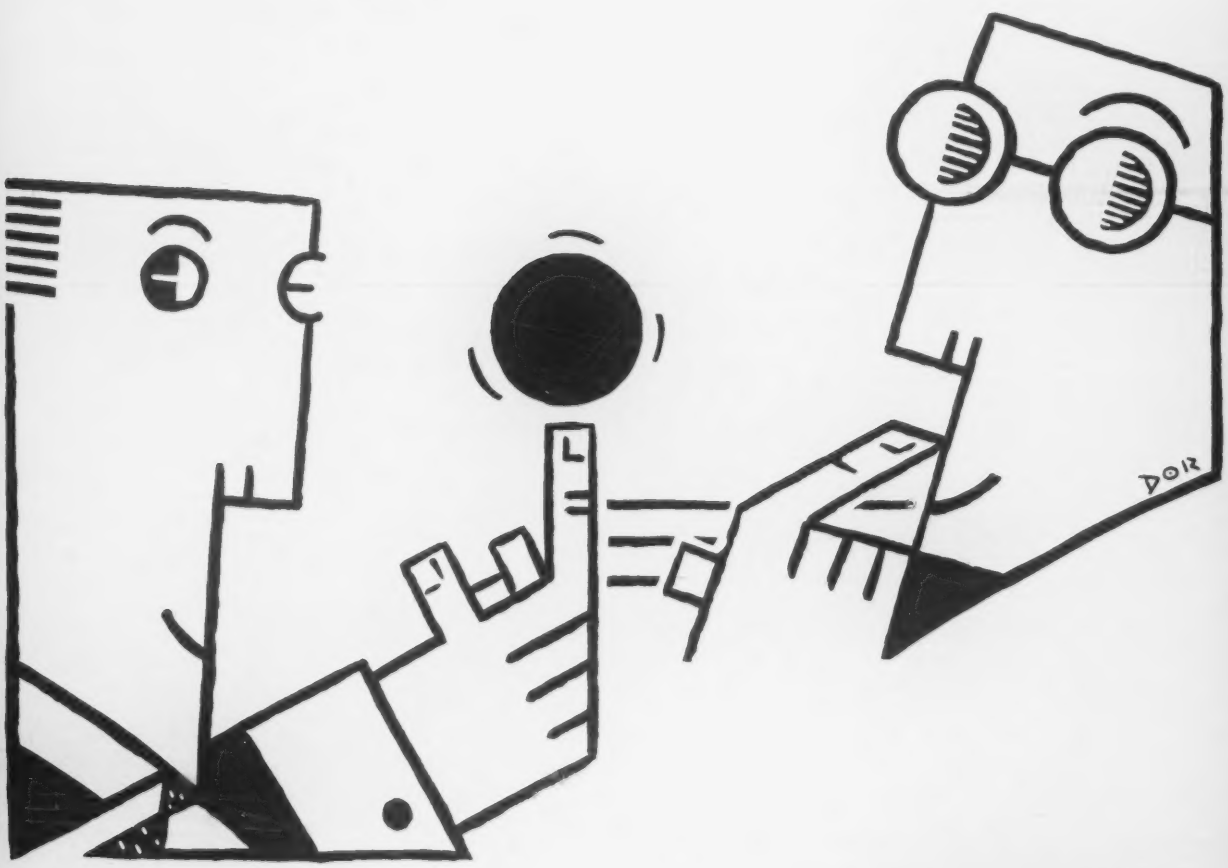

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Die wirtschaftliche Integration der fünf neuen Bundesländer in die Europäische Gemeinschaft

The Economic Integration of Eastern Germany into the European Community

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Parallel to German unification came a series of issues involving the integration of the former German Democratic Republic into the European Community. The case of the former GDR is unique to the Community and will never be repeated. While the experience of eastern Germany is not necessarily a model for the widening of the European Community, it does demonstrate how the European Community might accept members in a relatively short period of time.

The Terms

German unification forced the European Community to change its strategy not to admit new members before 1993. The issue facing the Community was how to stand by its commitment to support German unification, an obligation already made thirty-three years ago in the Special Protocol to the Treaty of Rome. That Protocol stipulated that economic ties between the two German states were inner-German and that the German Democratic Republic was for the Federal Republic not a "third" country. Thus, there were no tariffs or Community quotas operating between the two German states.

The special economic relations between the two German States were already outlined in the Berlin Agreement of 1954 which had been concluded not between the two states, but rather between two currency areas, i.e. DM West and DM East, and became the basis of economic relations when the common European Community trade policy was established in 1957.

Like other former COMECON countries, the former GDR rejected a trade agreement with the European

The EC Commission was authorized to organize the integration of the former GDR into the Community outside the normal procedure for admission of new member countries.

Community until 1988. Only bilateral agreements, such as on economic, technical and scientific issues, were maintained between the European Community and Eastern European countries.

Following the "Joint Declaration of the COMECON and the European Community on Mutual Relations" in June of 1988, the German Democratic Republic entered into negotiations on a trade agreement with the European Community. An agreement was signed in May of 1990 but was never operationalized. During the same month, the European Community held its summit meeting in Dublin and agreed upon a strategy for the integration of the former GDR into the European Community. It was decided that long-term negotiations, such as those conducted earlier with Spain and Greece should

not take place and that a new procedure would be implemented in light of the quickening pace of German unification.

The EC Commission was authorized to organize the integration of the former GDR into the Community outside the normal procedure for admission of new member countries. This was enhanced by the fact that the EC Commission was already the third partner during the negotiations on German unification between the two German delegations and by the fact that the German Democratic Republic assured the Commission that it would structure its economic policy under EC regulations.

EC Admission in Three Phases

Agreement was reached quickly concerning the admission of the former GDR as part of the European Community, essentially as of July 1, 1990, with the beginning of the German Economic, Monetary and Social Union. This procedure would be marked by three phases: an interim period from July to October of 1990, a transitional period from October 1990 to the end of 1992 and then a full integration beginning in 1993.

As of July 1, 1990, East Germany assumed the legal regulations of the European Community and accepted approximately 80 percent of the Community regulations. The remaining 20 percent were exceptions which the EC provided to East Germany.

Most of the exceptions are concentrated around economic, environmental and consumer protection issues and are valid through the transitional period. Some other exceptions will run through 1996. (Please see Appendix for summary of Transitional Measures of the EC)

The remnants of the symbol of the division between eastern and western Europe attracts souvenir hunters.

The exceptions are based on a clear understanding by the EC of the economic situation in eastern Germany. The five new east German states have been given time to prepare for full application of EC rules within the transitional period. Without these exceptions, full application of EC regulations, particularly in the environmental sector, would have contributed to a more serious collapse of the East German economy.

Other exceptions were designed to provide for transition to new external tariff agreements. The East German states had to open their territory to the economic activities of all EC countries and their private sector initiatives and had to accept that the EC Customs Union for industrial goods, as well as steel and coal was extended to this part of Germany. Hence, the flow of goods, services, capital and persons to third countries, especially to Eastern Europe, was now to be controlled by EC regulations and quotas.

Relations With Eastern Europe

Yet, some exceptions regarding trade with Eastern Europe were designed to permit subsidization of exports of the five new states and to stem the total disruption of Central and East European economies. The EC also accepted through the end of 1990 the special exchange rate of DM 2.34 for the ruble. This led to a trade surplus with the Eastern European states. As of January 1, 1991, the financial basis of trade between the five new states and Eastern European countries was shifted to hard currency. The question of how to convert this surplus into convertible rubles remains unanswered.

The EC also agreed not to impose tariffs and not to apply EC quotas for East German imports from these countries, as long as the goods remain in the GDR. (EC tariffs, quotas and regulations will be imposed on reexported goods) But all this could not prevent East German trade with these countries from decreasing significantly. Eastern European countries suffer from a serious lack of hard currency and eastern German enterprises are more interested in doing business with western partners. By the end of 1991, this trade is expected to be reduced by 50 percent.

The EC has also treated some 3,000 bilateral agreements between the former GDR and COMECON countries generously. While some may be discontinued, the agreement on the delivery of natural gas to East Germany from the Soviet Union, for instance, could be a firm basis for continued linkages between East Germany and Eastern Europe.

In this period, then, five east German states *(fünf neue Bundesländer)* got the chance to adjust their standards to EC regulations over a long period of time, for instance in the areas of quality, plant, veterinary and human health, animal nutrition as well as industrial security and environmental protection (soil, water, air). Yet some EC standards were strictly enforced, for example the use of some kinds of fertilizers was forbidden, the nuclear reactors in Greifswald were shut down,

the unhealthy situation in the slaughterhouses was immediately subject to EC standards, and the reduction of lignite production and consumption began (aiming at a reduction of more than 300 million tons a year to 150 million tons by 1998, to be replaced by natural gas). Thus, all merchandise produced in the five eastern German states not in conformity with EC standards can be consumed only there and/or exported to third countries outside the EC.

Financial Support

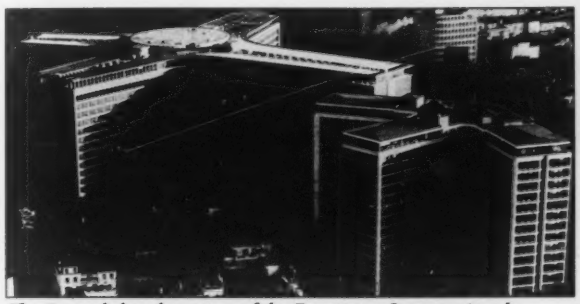
One of the most important questions in connection with the integration of the former GDR in the EC is the status of the Five New Länder as a special region of the EC. From the very beginning, it was clear that it could not be the status of an underdeveloped region by reason of the relatively high income and GNP per capita. The EC agreed upon eastern Germany's status as a region with decreasing economic development and a high share of agricultural production. Thus, the five new eastern German states also have access to the financial support of the EC, including structural funds, grants and loans with preferential interest rates.

In the years 1991-93 they will receive the total net sum of DM 6 billion within the framework of the three structural funds of the EC (Regional, Agricultural and Social Funds) as well as of the Educational Funds (ERASMUS, TEMPUS, COMETT). Taking into account the contribution the eastern part of Germany will make to these EC funds, the overall amount in structural funds from the EC is considerably less. Additionally, DM 5 billion grants and loans from the European Community for Coal and Steel, the EURATOM as well as the European Investment Bank are available during the same time period for eastern Germany. There are options too to apply for loans with the recently established European Bank for Reconstruction and Development (EBRD) in London.

. . . the treatment of the five new German states by the EC was very generous, tolerant, uncontentious, and speedy.

Thus, the treatment of the five new German states by the EC was very generous, tolerant, uncontentious, and speedy. Because of this fact the eastern part of Germany is not a serious economic competitor for the other EC countries. Now the East Germans also have the opportunity to become good Europeans by overcoming their long-term isolation and one-sided orientation to Eastern Europe.

Interesting for both the theory and practice of EC integration was the fact that the old issue of the relationship between widening and deepening is solved. And now it addresses the right view of German unification by promoting both processes simultaneously. The EC continued successfully its plan for further integration especially in the preparation of the Single Market and at the same time organized the integration of the five new German states. Thus, German unification served as a challenge and a catalyst for EC integration in terms of decision making: the EC reacted quickly in view of the accelerated process of German unification by delegating higher competencies to the EC Commission. It was given the right to decide upon the details of the integration of the former GDR in the EC, unlike the normal route of long-term negotiation that took place with Greece, Portugal and Spain where the Parliament and the Council of Ministers played a larger role.



The Brussels headquarters of the European Community, the Berlaymont building.

Gains for the EC

Eastern Germany will benefit from integration into the EC with free access to EC merchandise, services, capital and labor markets, imports and scientific as well as technological cooperation, and participation in the European Monetary System and financial support. So will the EC. With the integration of eastern Germany, the population of the EC will grow by 5 percent, and the EC territory will expand the same amount; however, the GNP of the EC will grow by only 2 percent. First rough estimates show that, because of the high import demand in the five new German states, German unification will contribute to the growth of GNP in the world by 0.25 percent, in the EC by 0.75 percent and in Germany by 1.5 percent. But in the individual EC countries, this contribution will differ depending on their economic ties with the eastern part of Germany (for instance, in the Netherlands by 1.2 percent and in Great Britain by only 0.3 percent). Thus, the question raised in the early stages of German unification about the negative consequences for EC integration is meanwhile clearly answered by the fact that the EC will benefit more from German unification than it loses. German unification seems destined to be a kind of new locomotive for the development of the EC; nevertheless, some dangers for the EC have not yet disappeared.

Dangers

The threats arising from German unification for the EC are connected both with economic and social issues. Economic concerns are twofold. First, one cannot exclude the fear that Germany is financially overtaxed by German unification. The five new German states are

the region of Europe with the most disastrous economic development. There is more than 30 percent unemployment, a decline of industrial production by approximately 50 percent and of exports by 30 percent within one year, meager investment by enterprises from the western part of Germany or other West European countries or the U.S., and a monthly exodus of more than 10,000 citizens, especially young workers, all discouraging signs for the East Germans. The costs for the economic transition of East Germany are much higher than previously estimated. Unexpected high

... one cannot exclude the fear that Germany is financially overtaxed with German unification

deficits in the state budget and rising interest rates are the bitter realities of German unification. As a result, the DM is coming under pressure with attendant challenges for the EC's European Monetary System because the DM is still the most important currency in this system.

The destruction of an industrial region like this one is a unique case in the history of Europe and will become a heavy burden not only for the Germans but for the EC as well. Time was lost to promote investment, to create new jobs and to retrain the labor force. Money was wasted to finance the rapidly growing number of unemployed. Much earlier, this money would have been better used to establish a favorable investment climate on the basis of a development plan for the five new German states. In this respect, the German Economic, Monetary, and Social Union turned out to be a failure. There were alternatives but the German government decided in favor of *super shock therapy* by the instant introduction of the deutsche mark (DM) in the former GDR and the replacement of the East German currency for political reasons.

Additional Problems

Furthermore, there are some additional emerging problems for the Community connected with German unification.

In economic terms, the costs of economic transition for East Germany are much higher than previously estimated. High deficits in the federal budget and rising interest rates are the hard realities of German unification.

In response to these challenges, the federal government established an emergency program, *Gemeinschaftswerk Aufschwung Ost*, which is designed to lay a firm basis for recovery in the five new states. This will involve investment allowances, job creation, and support for private investments in small business. While taxes on cars, fuel and tobacco have been increased to help pay for this initiative, property and business taxes have been reduced in East Germany.

Other problems remain to be solved, among which are inadequate infrastructures at the local level, environmental damage, unresolved property claims, and absence of a functioning local administration.

Assuming that these problems can be overcome soon, the integration of the five new states into the European Community is both a challenge and a catalyst for the Community. With Germany being the leading locomotive of the EC, the Community can successfully manage widening and deepening itself. □

Appendix

A) Transitional Measures of the EC in favor of the Five New Länder

1. Customs Union

Special treatment of trade with CMEA countries

2. Technical Prescriptions

Harmonization until end 1992: Foodstuffs, chemical products, pharmaceuticals, cosmetic products, telecommunications, construction machines and electrical gears, textiles, finished packings, crystal glass, tobacco products, agricultural products, sugar, honey, fruit juice, milk and dried milk, edible oils and fats, preserves. Until end 1995: Pharmaceutical specialties, veterinary pharmaceuticals.

3. Competition Law

Shipbuilding, iron and steel industry (no quantitative restrictions and continuation of subsidization)

4. Statistics

Adjustment for freight traffic, gas and electricity prices, labor, agriculture.

5. Environmental Directives:

	Deadlines	
	readjustment	
Water	program	application
Surface water	Dec. 31, 92	Dec. 12, 95
Ground water	Dec. 31, 92	Dec. 12, 95
Drinking water	Dec. 31, 91	Dec. 12, 95
Baths waters	-	Dec. 12, 93
Drain of toxic substances	-	Dec. 12, 92
Fresh water	-	Dec. 12, 92
Air		
Sulfurdioxyde	Dec. 31, 91 *	Apr. 1, 96
Lead	Dec. 31, 92 *	Jul. 1, 94
Nitrogenoxydes	Dec. 31, 92 *	Jan. 1, 96
Large burning equip.	Jul. 1, 92	Jan. 1, 96

** Option of prolongation in highly affected areas*

B) No exceptions fixed

1. Public order
2. Industrial and intellectual property
3. Freedom of movement of goods, services, capital and labor force
4. Acknowledgement of diplomas
5. Financial services, corporate law, taxes
6. Indirect taxation
7. Protection of consumers (exchange of information on dangers with application of consumer goods) □

Überblick

Die wirtschaftliche Integration der fünf neuen Bundesländer in die Europäische Gemeinschaft

Mit der Wiedervereinigung der beiden deutschen Staaten stellte sich auch die Frage, wie die aus der ehemaligen DDR hervorgegangenen fünf neuen Bundesländer in die Europäische Gemeinschaft integriert werden können. Als Teil der Bundesrepublik Deutschland stellte sich für die neuen Bundesländer dabei weniger die Frage der politischen Integration. Vor eine ganz andere und ungleich schwierigere Aufgabe sah sich die Gemeinschaft dagegen bei der wirtschaftlichen Integration der neuen Länder gestellt - eine Aufgabe, die bislang einmalig war.

Der Beschluß der EG, vor 1993 keine neuerliche Erweiterung der Gemeinschaft vorzunehmen, konnte vor dem Hintergrund der desolaten wirtschaftlichen Lage der ehemaligen DDR, die rasches Handeln gebot, nicht aufrechterhalten werden. Und die EG handelte bemerkenswert flexibel, rasch und entscheidungsfreudig. Das innovative an dem Prozeß der Eingliederung der neuen Bundesländer war vor allem, daß die EG-Gremien erweiterte Kompetenzen hatten und dadurch freier und zügiger die erforderlichen Entscheidungen treffen konnten.

Die gestellte Aufgabe war außerordentlich schwierig, denn die EG mußte sowohl der besonderen Situation der ehemaligen DDR als wichtigster Partner der Sowjetunion und ihrer starken Einbindung in den COMECON, als auch der Orientierung der neuen Bundesländer nach Westen gerecht werden. Dies erforderte eine Reihe unkonventioneller Entscheidungen, die dazu führten, daß eine Reihe von Ausnahmeregelungen getroffen werden müßten, sollte sich die wirtschaftliche Situation der neuen Länder nicht noch weiter verschlechtern. Die neuen Bundesländer können nun an einer Reihe von Förderungsmaßnahmen teilhaben. Nicht unwichtig war dabei die Klärung der Frage, welcher Status der ehelaigen DDR zukommt, da sie einerseits stark industrialisiert ist andererseits aber enorme Finanzhilfen benötigt.

Die EG hat mit ihren Maßnahmen nicht nur die Wiedervereinigung der beiden deutschen Staaten unterstützt, die für die Bundesrepublik allein vielleicht zu kritischen Situationen hätte führen können, und damit ihre Versprechungen aus den Vereinbarungen von Rom erfüllt, sondern auch ein Beispiel dafür geliefert, wie rasch und unbürokratisch neue Mitglieder in die Gemeinschaft aufgenommen werden können. □

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Die Europäische Gemeinschaft — die große Unbekannte in der neuen Weltordnung?

The European Community: Wild Card in the New World Order?

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I have been asked to discuss the European Community's (EC) role in the world by giving you one American's perspective on the EC's place in a New World Order. There is something circular in this assignment, since the character of the Community is itself a key variable in what the future Order will be like. After all, how can we discuss new global security arrangements without reference to the outcome of discussions about NATO, or about intra-European cooperation on defense and foreign policy, or about the participation of a newly reunited Germany in these matters? How can we describe the emerging economic order without some assumptions about the impact of "1992," or the nature of Economic and Monetary Union?

What does it mean to speculate about tomorrow's global trading arrangements — whether they will be fundamentally open and liberal, whether *managed trade* will grow, whether we will have confrontational trading blocks — without some conclusions about how Western Europe will deal with its critical high technology problems, especially in computers, electronics and autos? And how could we project what will happen in Poland, Czechoslovakia, Yugoslavia, Hungary and, most importantly, the Soviet Union without asking what role the Community will play in providing new aid and new markets?

Three Underlying Premises

First, in terms of Cold War political and economic thinking, the EC is moving far beyond anything going on in the U.S. or Japan. In London, Paris, Bonn, Rome and, of course, Brussels, the big political questions of the 21st century are being hotly debated: What does sovereignty mean, and how much ought to be preserved? How to mesh different economies based on their own distinct institutions, cultures and priorities? How to balance market forces and market regulation? How to combine industrial policy with an open trading system? In America these issues are almost never debated in a fundamental and sustained way. When they do flare up, the arguments are shamefully shallow, inarticulate, and dominated by countless special interest groups with no public purpose.

Western Europe . . . alone is in the process of making a cutting edge intellectual contribution to the New World Order.

To make matters more pitiful, the objective of most U.S. policy now is not how to enter the next century but how to restore what we once had — decent schools, affordable healthcare, safe streets, solid roads and

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bridges, a sense of community. As for Japan, there is great concern in Tokyo about "internationalizing" Japanese business, and about finding a role in the world that is comfortable and acceptable to others. I doubt, however, that the Japanese would say that they have approached Europe in the depth with which tomorrow's political and philosophical issues are being wrestled with. One of the biggest issues in Japan now, for example, is whether to open up the rice market, just a bit, even though Japanese consumers are paying six times the world price. A more general issue is how to bring basic lifestyle amenities to those who don't have decent houses, proper sewage, etc.

The point is this: While Western Europe is not without its parochial concerns, it alone is in the process of making a cutting edge intellectual contribution to the New World Order. It is breaking new ground. It is also in uncharted territory.

Second, given a decade or so, the European Community will probably have achieved very significant integration — on all fronts, political and economic. I truly believe that the forces are irreversible over time. Since none of us can foresee what the world will be like that far away, however, it's the more intermediate period — the transition period — that must preoccupy us and that is so critically formative to the shape of the post-Cold War world. It is these next few years, therefore, that I think we should focus on.

Third, if I gaze into my crystal ball for this period, I see the EC being the major variable in the New World Order. The course of America and Japan is, for better or worse, reasonably set and predictable. There will be no change in the American political system, no great innovations in economic policy, no departure from the desire to play the leadership role in the world while straining badly to afford it, and while shunting as much of the cost as possible on to others.

In addition, barring the occasional international crisis, the primary agenda for the next several years is inevitable, and it's overwhelmingly domestic: education, crime, health care, infrastructure, banking regulation, corporate restructuring. From Japan, as well, there should be few surprises — no challenge to the ruling Liberal Democratic Party, snail-paced change on the defense front, no dramatic economic openings, and, consistent with existing trends — a widening lead over the U.S. and Europe in the high-technology sectors.

Hans-Dietrich Genscher, Federal Minister for Foreign Affairs with then President Gorbatchev, Moskow, September 10, 1991.

It is Western Europe, therefore, which is the wild card. Will it become the first supra-national entity, wielding exceptional clout because of its 21st century structures? Will it implode under the weight of organizational chaos, uneven implementation and unforeseen pressures from the East and the South? Will we see something in between? And most important for our discussion, what are the implications of Western Europe's fate for the post-Cold War, post-Gulf War era over the next few years?

What Kind of EC?

Let me venture to make several predictions, hoping that these can serve as jumping off points.

In my view, the high water mark for the European Community may have already passed, at least with reference to the period between now and, say, the late 1990s. The hoopla of *Europe 1992* is over, and the hard slogging through regulations and implementing legislation will be a drawn-out affair. The concept of an Economic and Monetary Union (EMU) was once a dramatic one, but it seems as if it will come about slowly, and in fits and starts. Besides, its not clear how powerful a European Central Bank will be compared to the clout of the Bundesbank today, given that it will be weighed down by its multiple masters and diverse national constituencies. And although a common currency will make life convenient for workers and travellers moving around within Europe, I'm not sure that it will have a great impact on global finance.

The hoopla of* Europe 1992 *is over, and the hard slogging through regulations and implementing legislation will be a drawn-out affair.

I've said a lot there, so let me give just one example by way of elaboration. Let's take the situation regarding EMU. Here is a concept at the heart of a truly integrated community — a common currency, a single central bank. With EMU, I would argue, the EC will *de facto* have a coherent foreign economic policy, and in a New World Order, this will be 75 percent of any meaningful general foreign policy. With EMU the separate nations of the EC will require closely coordinated monetary policies; this, in turn, means that the different styles and preferences of, say, Spain, England and Germany will have to converge. Last December, a lot of fanfare surrounded the convening of an EMU conference. Now there are big arguments over whether EMU will be achieved in 1994 or 1996 or later. It escapes no one's attention, however, that there is little agreement on the substance of what this monetary system will look like.

There is no consensus, for example, on who will manage a powerful central bank and to whom it ultimately will be accountable. There is no agreement on

how various countries will manage their taxing and spending policies — an essential ingredient in economic convergence. There is no agreement whether everyone will join EMU at the same time — whether and when, for example, they would use a single currency — or whether there will be a two-stage approach and, if so, how long the transition of the *laggards* would be. I don't mean to criticize the enormous efforts which have been made to date, but only to illustrate how far there is to go, and how fundamental the outstanding issues are.

"1992" and EMU aside, the newer issues are fraught with even greater problems. They point to an EC whose strength and cohesion will be far less than many would have predicted a year or so ago. I have four issues in mind.

Consider, for example, the likely widening of Community membership. I suppose this will include Austria, but

. . . Bonn may be overwhelmed by new domestic and international pressures, with the result that it will be a drag on the evolution of Community institutions . . .

Sweden and perhaps Norway seem likely candidates too. More destabilizing than the entrance of these democratic, industrial societies will be arrangements to partially integrate some of the Eastern European nations. The bigger the EC gets, the more complicated and cumbersome its internal politics and decision making will be, the lower becomes the common denominator, and the slower the EC's evolution towards a clear, coherent entity.

Next is the question of common security policy. Here, too, the results are likely to be murky, with those favoring a dilution of NATO and the U.S. role, and those wanting a true European pillar, and no real resolution of the two views. How likely is it that the British will give up their need to act independently, or that the French will submerge their sovereignty? Isn't it a good bet that in the next few years, at least, the German reluctance to get more involved in global security arrangements will persist, no matter how much Chancellor Kohl tries to the contrary? Moreover, when it comes to involvements outside the European arena, it is doubtful that the EC is going to get its act together soon; at least for the next several years, my guess is that it will still be every nation for itself, as it was in the Gulf.

A third issue is the new role of Germany. Not long ago the image of a new muscle-bound superpower, calling the shots, was quite popular and worrisome in the U.S. Americans, at least, were inclined to raise the specter of a Germany pulling all the levers of the EC, dictating economic policy, dominating high technology, shaping defense doctrine. Today, we're not so sure. Some recent public opinion polls, for example, show that 75 percent of Germans polled rejected a new international role for the nation. The four countries which most Germans saw as a model for their own nation were Switzerland (40 percent), Sweden (30 percent), and Japan and Italy (10 percent each). America rated 2 percent.

The 17th summit meeting of leaders of the seven big industrialized nations. President Bush and Chancellor Kohl, London, July 1991.

In fact, Bonn may be overwhelmed by new domestic and international pressures, with the result that it will be a drag on the evolution of Community institutions, except for new associations in the East, where it will push hard. The situation in the old GDR is a mind-boggling example. Everyday brings higher estimates of the costs — but the last one I saw was a projection by McKinsey Consultants, prepared for the German government, which estimated private and public investments running as high as $1.2 trillion in this decade. Forthcoming studies at the Brookings Institution in Washington estimate that only 8 percent of East Germany's work force is now employed

Despite the fanfare surrounding several inter-governmental efforts to coordinate EC research, for example, the big firms are bleeding.

in a viable business and point to unemployment rates soaring past the current 30 percent. Beyond this, there are growing financial burdens with regard to the Soviet Union (including some $8 billion to move and resettle Soviet troops now stationed in Germany), and a determined American Congress (and public) looking for ever more burden sharing. It's not that Bonn won't want to be a good European citizen or won't act like one. It's simply that it will have too much on its plate to move boldly or in a steady direction.

Finally, I see the EC being strongly influenced by weakness in certain economic sectors, most notably computers/electronics and automobiles. This is no small problem, given the political, economic and social centrality of these industries. Despite the fanfare surrounding several inter-governmental efforts to coordinate EC research, for example, the big firms are bleeding. France's Groupe Bull recently required a massive capital injection from the state. Germany's Siemens had to buy its bank-

rupt rival, Nixdorf, and the combined entity is still losing money. Holland's Phillips just laid off a third of its work force.

The European firms are behind their U.S. and Japanese rivals in innovation and efficiency. Their smaller size — the combined sales of the top four European computer companies are just one-third of IBM's — constrain R&D expenditures. Will American and Japanese firms prey on these weaknesses or will European governments inter

A big question now is how much longer can Europe escape the impact of a downturn in the U.S.?

vene? "The game is pretty much lost," a British stock analyst recently told *The New York Times*. "It's just a matter of time before (the European computer companies) disappear."

But men like Roger Fauroux, the French Minister of Industry say otherwise. 'The industry will not grow spontaneously like a mushroom in autumn," he said. It needs "a favorable environment and intelligent help from the state." And France's new Prime Minister, Edith Cresson, makes Fauroux look like Adam Smith. When she resigned from the government last October, she minced no words. "France needs a strong industrial policy, and they don't want one, so I'm off," she said. "There is a world economic war going on," she added, and "France is not waging it." We have several visions here, but none is very encouraging form the standpoint of a strong, dynamic EC.

Two Developments to Watch

The [illegible] the fragile global economy. One reason why [illegible] Europe has been able to progress so dra[illegible]y since the late 1980s is that economic growth has be[illegible]trong enough to offset many political and social pressures that inevitably accompany rapid change — pressures of unemployment, tensions within communities, divisions of the social pie. A big question now is how much longer can Europe escape the impact of a downturn in the U.S.?

Aside from America's situation, all is not so well in the heart of Europe, either. Turning to Germany, who believes, whether the troubles in the East will not get worse? The continuous upward revisions in how much money it will take, the horrendous forecasts of unemployment in a society where such conditions didn't exist before — for an American there are shades of an S&L-type black hole (just a year or so ago the Administration said $10 billion would save the system),only with much higher stakes. The point is that two of the three global engines could be sputtering. The professionals, including the IMF, seem sanguine. I hope they know something I don't.

The second big concern is a time bomb, and we can hear it ticking. Are we not going to see a second post-Cold War revolution soon in the U.S.S.R.? Even if we can't say what form it will take, the odds appear to be that the economy will collapse and social unrest will mount. The C.I.A., for example, has just released a report showing a 10 percent decline in output and a 100 percent inflation rate as a base case. A more drastic, but nevertheless possible scenario, is for a 30 percent decline in GNP and 25 percent unemployment. According to the IMF, the U.S.S.R. needs $20 - $30 billion in additional credits this year for food, vital industrial equipment, and debt service. Arrears are mounting fast. Vladimir M. Mashchits, a respected economist, minces few words. "We are in a classic slide, which nothing can stop," he told *The New York Times* in May.

And as the U.S.S.R. disintegrates, it will cast a hammer blow on Eastern Europe, which is still heavily tied to the Soviet economy. For example, Polish and Czechoslovakian exports to the U.S.S.R. are down 40 percent from a year ago. Inventories are piling up in warehouses from Warsaw to Prague, and financing for trade is drying up and barter is back on the agenda. Blocked from the Soviet market, Eastern European nations will put massive pressure on the EC to open its borders, and to up the ante when it comes to all manner of economic aid. From the standpoint of dislocation, however, the impact of hundreds of thousands of immigrants and refugees banging on the doors of their richer Western European neighbors may overshadow all else.

Some Implications for EC - U.S. Relations

This vision of the EC — moving slowly on the economic integration front, amorphous in shape and structure, indecisive in defense, beleaguered in key industrial sectors, facing a difficult world economy, and reeling from pressures from the East — has enormous implications for the New World Order. Here are some of them:

Throw out that vision of a new European superpower, so fashionable just a year or two ago. Forget the idea that there will be three more-or-less comparable blocks of

And as the U.S.S.R. disintegrates, it will cast a hammer blow on Eastern Europe, which is still heavily tied to the Soviet economy.

countries — America, Japan, the EC — cooperating to build a New World Order and coordinating economic and foreign policy as equals. Think instead about two possible scenarios.

The first is that America and Japan will have great advantages over the EC in the 1990s, since their systems will be under far less strain. In practice there could be an American-Japanese *entente* of sorts for the world outside the EC, with Washington and Tokyo having reached some agreements on military and economic burden sharing in the Middle East, in Asia and in Latin America. It could involve Europe's falling further behind in technology, as U.S. and Japanese firms continue to link up, pooling their resources, including R&D, while Brussels wrestles with new modes of government support for national champions.

A second possibility is that America and Japan will not

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get along, that in fact the tensions between their goals and their systems, combined with mounting U.S. frustrations on the domestic front, will lead to growing antagonism between Washington and Tokyo. In this case we could enter a new era of trilateral struggle. It is unlikely that security ties would not unravel in this scenario — particularly NATO and the U.S. - Japan Security Treaty.

Another implication of the kind of EC that I have described — a disorganized and relatively weak Europe — is in its trans-Atlantic foreign relations. An EC struggling to move towards political and economic unions of sorts won't have the luxury of sealing itself off from external events while it gets its act together. At the same time, there will be precious little understanding in America about the difficulties which Europe has in moving from one era to another. This is a recipe for increasing trans-Atlantic friction.

We can expect Washington, for example, to oscillate between emphasizing Brussels and emphasizing individual capitals in its diplomacy. While that's not new, the U.S. could become increasingly impatient with the EC and lean more toward the old bilateral approaches. In this effort it will push Bonn and London, particularly the former. As always, Germany will neither allow itself to be pushed, nor — as it becomes more enmeshed in the EC — will it have the flexibility to budge much. Therein lies

. . . the U.S. could become increasingly impatient with the EC and lean more toward the old bilateral approaches.

what I think will become a very major foreign policy problem for the rest of the 1990s — U.S.- German relations. "The process of unification had been a high-water mark in German - American relations," say Greg Treverton and Barbara Bicksler in a new study by the N.Y. Council on Foreign Relations. "However, once German and American relations were turned away from each other, Washington to the Gulf and Bonn/Berlin to itself, their leaders quickly diverged. So did their politics."

EC and Japan

There are implications for European-Japanese ties, too. We're on new ground here because the depth and intensity of relations between Europe and Japan are nowhere near what they have been between the U.S. and Europe, or between the U.S. and Japan. On the one hand,we may see between Brussels and Tokyo a new kind of economic diplomacy, free from the political baggage which Washington always carries — a more pragmatic, deal-oriented kind of diplomacy. Europe will need Japanese technology and capital — that's a key driving force. Japanese companies, for their part, seem to be acutely conscious of the diverse cultural sensitivities on the Continent. And, worried about a deteriorating atmosphere in the U.S., and in great need of expanding markets, Japan sees Europe as a new, high-priority frontier.

But what all this will amount to is not at all clear. Japanese exporters have been targeting the EC to compensate for a slump in the U.S. Tokyo's trade surplus with Brussels is growing dramatically, having reached almost $10 billion for the first 4 months of 1991 compared to $6 billion in the corresponding 1990 period. This has happened even before Western Europe or anyone else has borne the brunt of a massive investment boom in Japan over the past few years, a boom which has seen capital spending running at twice the rate in Germany (as

. . . worried about a deteriorating atmosphere in the U.S. and in great need of expanding markets, Japan sees Europe as a new, high-priority frontier.

a percentage of GNP), for example. It is hard to imagine, moreover, that Japan can be anywhere near as successful in Europe as it has been in America for cultural and historical reasons. The U.S. is a much more open society in every way than most European nations. Japan made great strides at a time when America was inclined to give priority to bilateral security matters; and, from Admiral Perry to Theodore Roosevelt to General MacArthur to the Ron-Yasuo relationships, there have been links between Washington and Tokyo which are simply unique.

Then there is the Third World. It is hard to see how the EC, preoccupied with so many problems on the continent, will not gradually decrease its attention to Third World development and Third World peacekeeping. The pinch on resources, the pressures on trade and immigration from the East — they won't spell a total absence of EC involvement in Africa, Latin America and Asia, of course, but much less than otherwise might have been the case. All these matters will be made even worse by an EC whose leading technologies are faltering, combined with an EC whose spare financial resources will have to go to Eastern Europe and the U.S.S.R., and whose agricultural markets will be under pressure from many of those same nations.

A Rocky Period Ahead

So where does all this lead us? No one should really have expected that a New World Order could emerge easily from the Cold War. No one should have expected that crushing Saddam Hussein was the magic ingredient that would bring the major industrial democracies some

It is hard to see how the EC . . . will not gradually decrease its attention to Third World development and Third World peacekeeping.

kind of a new Atlantic Charter for the 1990s. We are still in for a rocky period. The irony is that the nations who are far and away most advanced in experimenting with the substance of a New World Order — those of West-

ern Europe — could well be the ones who will, as much as anyone, be holding it back.

Can anything be done? It is easy to say that the EC may be attempting too much at one time and should focus on fewer efforts — perhaps getting 1992 and EMU right before tackling political union, or a common foreign policy. But so much has already happened, and too many efforts are already politically linked to make this even a plausible alternative. It is *de rigeur* to say that America must continue to lead in this period, but truth is that the *sina qua non* of American clout is progress at home, which is not around the corner (to state it politely); and, in any event, in the post-Cold War era, the U.S. has not and will not have much influence on internal EC matters. More summits, more G-3 and G-7 meetings? Yes, of course, but no one should anticipate dramatic results.

Indeed, it's not hard to be pessimistic. But it would be a shame to fall into that trap too easily.

I am a supporter of President Bush's efforts to define a loftier vision of the post-Cold War era. I do believe that unless we shoot high, our efforts will not amount to much. The problems I have outlined are daunting, but no more so than in the years after World War II when all of Europe was prostrate, the very fate of Germany hung in the balance, and it was not yet clear what America would do. We've had other rough periods, too, such as the early and mid-1970s, when inflation was moving up, and oil problems were dividing all the countries.

If I had to identify the major reason why there is cause for optimism it is that we have going for us now an impressive array of leaders — Bush, Major, Mitterrand, Kohl, Kaifu, Delors. It's not that they don't make mistakes, not that they cannot be criticized. But they do know their briefs, they have vast experience, and they are aware of the challenges ahead. I believe these men are dealing with publics who are well educated, increasingly aware of the complexity of issues, and rather sophisticated about the *art of the possible*. Our political leaders and their followers may not have the answers, but they do know the questions, and that's no small matter. □

A special summit of the European Council, April 8, 1991 in Luxembourg on peace in the Middle East, attended by German, Danish, Greek and EC leaders.

Überblick

Die Europäische Gemeinschaft — die große Unbekannte in der neuen Weltordnung?

Die Welt befindet sich im Umbruch. Die kommunistischen Systeme sind bis auf wenige Ausnahmen zerbrochen. Wir stehen an der Schwelle des 21. Jahrhunderts. Das mag Anlaß genug sein, zu diskutieren, wie die Welt von Morgen aussieht. Für Europäer ist dabei von besonderem Interesse, wie ein Amerikaner ihren Kontinent sieht.

In den USA wird darüber gesprochen, wie man das Bestehende bewahrt und ein Um-sich-greifen der Rezession verhindert; Japan ist damit beschäftigt, herauszufinden, wie eine eigene Rolle aussehen könnte, die für andere akzeptabel ist. Kurz gesagt: Nur in Europa wird über die Zukunft diskutiert und versucht, neuen Boden zu betreten.

Während der Kurs der USA und von Japan weitgehend vorhersehbar ist, ist in der EG alles in Bewegung. Vieles ist offen, vieles ist noch möglich. Vielleicht wird Europa ein einmaliges Modell. Es ist die große Unbekannte in der neuen Ordnung dieser Welt nach dem Ende des kalten Krieges. Doch darin liegen nicht nur Chancen für Europa, sondern auch erhebliche Gefahren. Vielleicht wird zuviel und zu lange und über zu viele Themen debattiert. Vielleicht sollte sich die Gemeinschaft auf Schlüsselbereiche konzentrieren, und die darin liegenden Probleme auch lösen.

Als Beispiel für ungeklärte und sehr wichtige Fragen führt der Autor die Europäische Währungsunion an. Während einerseits eine gemeinsame Währung die Gemeinschaft erheblich stärken könnte, sind die Auseinandersetzungen um ihre Einführung unübersehbar. Und er macht darauf aufmerksam, daß selbst in dieser intensiven Diskussion die wesentlichsten Fragen ausgeklammert bleiben: wer wird die Europäische Zentralbank anführen - wenn es denn eine gibt? Wie werden die verschiedenen Nationen ihre Geldpolitik aufeinander abstimmen?

Natürlich steht dahinter auch die Frage, wohin die EG treibt, welche Art von Gemeinschaft daraus werden soll und wieviel Kompetenzen die Nationalstaaten letztlich abgeben wollen. Auch hier bleibt vieles im Unklaren. Bezieht man schließlich noch die ins Auge gefaßten Beitritte weiterer Nationen ein - und übersieht dabei nicht, daß der EG mehr denn je die Rolle einer Gemeinschaft für ganz Europa zugedacht wird - dann wird eine Einigung in wesentlichen Fragen immer unwahrscheinlicher; jedenfalls werden die wenigsten Probleme kurzfristig zu bewältigen sein.

Ebenso ungeklärt ist die Rolle des wiedervereinigten Deutschlands in der EG. Die starken Interessen Deutschlands könnten es zu einer dominierenden Nation machen, die das übrige Europa bevormundet. Und schließlich muß man sich fragen, welche Auswirkungen die Weltwirtschaft auf die EG in den nächsten Jahren haben könnte. Wie lange wird es der EG noch gelingen, sich Rezession in den USA zu entziehen. Und wer garantiert, daß die Entwicklung in Osteuropa die EG nicht In einen Strudel wilder Ereignisse reißt?

Es gibt verschiedene Modelle, wie die Welt von Morgen aussehen könnte. Unabhängig davon, ob die Vereinigten Staaten und Japan stärker r.liteinander kooperieren oder auf Konfrontationskurs gehen werden - die Europäische Gemeinschaft erwartet eine schwierige Zeit. □

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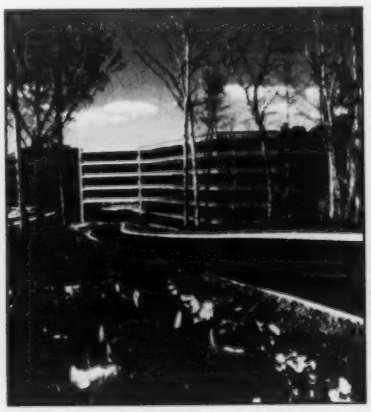

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Herausforderung des kommerziellen Luftverkehrs im vereinigten Deutschland und im EG Markt 1993

Commercial Aviation Challenges in a Reunited Germany and the Single European Market

Jürgen Weber
Chief Executive Officer
Lufthansa German Airlines

Scarcely any country in the world is more integrated into international commerce than Germany. No wonder, then, that Lufthansa's growth reflects that of the German economy. In the past ten years, our revenues have almost doubled to nearly DM 13 billion today.

Two events will have a very special impact on the future of our company: the peaceful reunification of our country and the Single European Market that will come into being in 1993.

Even so, 1990 and 1991 witnessed great upheavals in the aviation industry. Names that had a long tradition in international commercial aviation have disappeared and others were forced to sell off many of their routes. Newly founded airlines folded under the competitive pressure or have barely managed to survive. One-sixth of commercial mileage in the U.S. is accounted for by airlines that have sought protection under Chapter 11. At the same time, the industry is confronted with a degree of concentration—described by some as merger mania—that has resulted mainly from the heightened competition following in the wake of deregulation.

1990 and 1991 were also written in red ink. Operating losses accumulated by members of the International Air Transport Association (IATA) in 1990 came to $2 billion; as a result of the Gulf War and its fallout, results for 1991 will scarcely improve. At the same time, the imperatives of age and ecology will force the replacement of many aircraft, which will require substantial financial outlays.

Does this mean the end of a bonanza or the onset of stagnation? Or perhaps it's only a temporary setback that will soon be behind us. Finally, there is the problem of responding correctly to ever changing requirements.

Early on, Lufthansa recognized the opportunities offered by detente and proceeded to increase its scheduled flights to Eastern Europe substantially.

We work in a highly complex environment. Any informed prognosis of future demand for air transport is uncertain to the extreme. Nevertheless, several fundamentals can be identified.

A Positive Economic Outlook

The economic outlook at home and abroad constitutes the basis of any forecast of business in the airline industry. We believe that the business outlook for the rest of the 1990s is basically positive. Above all, the nations of the Pacific Basin will continue to generate high growth rates, while international detente will open up new horizons for our domestic market, which is Europe.

Pan Am terminal at JFK International Airport. Deregulation hastened its demise.

We Germans have special reasons to be happy since the unnatural division of our country and people was overcome nonviolently. Berlin, Germany's largest city, is again our capital and will, within a few years, again be the seat of government. For a little over a year, Lufthansa has been flying in and out of Berlin, which had previously been a monopoly exercised by the flag carriers of the United States, Great Britain, and France. Thus, for the first time since World War II, we have returned to the city where we were founded on January 6, 1926 as Luft Hansa.

Since the fall of the border between East and West Germany, we have worked intensively and successfully to overcome 40 years of German division. With very little time for preparation, we have been able to set up smoothly functioning air routes to Berlin and the rest of eastern Germany. At the present time, we have scheduled 875 flights to Berlin, Dresden, and Leipzig per week.

Although the gap in living standards between eastern and western Germany is likely to entail difficulties for some years to come, we are optimistic about the medium- and long-term outlook for business and tourist travel to East Germany. Visitors to Berlin or eastern Germany in the last six months will have noticed the construction cranes that dot the highways and cities and the signs of new companies proclaiming a growing dynamism that owes some of its impetus to foreign direct investment, not least of all from the United States. Seven American firms have already made major commitments and total direct investment from abroad amounts to DM 7.7 billion.

The airline industry will be in a position to serve as a real pioneer in developing the infrastructure and tying together new economic areas.

Many historically important cities are again attracting large numbers of tourists: Weimar, where Goethe and Schiller wrote many of their most famous works; Dresden, the Florence of the Elbe; and Leipzig, the home of Johann Sebastian Bach.

The Opening of Eastern Europe

German unification has not been an isolated event. The opening of Eastern Europe and the collapse of its command economies have transformed the economic and political landscape of Europe. Germany now lies in the center of a Europe that is increasingly looking for common ties.

Early on, Lufthansa recognized the opportunities offered by detente and proceeded to increase its scheduled flights to Eastern Europe substantially. Today, we are by far the largest Western carrier to Eastern Europe, offering more flights to that region than the second- and third-place carriers together (Air France and Austrian Airlines). We have direct connections from seven German cities to major points in Eastern Europe, with Frankfurt serving as the main hub. We recently began service to Riga, Latvia and Kiev, the capital of Ukraine. We believe that demand for trips and transport services to Eastern Europe will continue to register above-average growth. In this regard, the airline industry will be in a position to serve as a real pioneer in developing the infrastructure and tying together new economic areas.

The realization of the Single European Market will also signal the liberalization of European civil aviation . . .

The Single European Market will create a unified market of around 340 million consumers from 1993 on, and recent agreements with the European Free Trade Association (EFTA) nations will bring them closer to the European Community. This will clearly represent strong growth opportunities for commercial aviation.

The realization of the Single European Market will also signal the liberalization of European civil aviation with the so-called Phase 3. From this point on, all restrictions on granting rights will be removed. Fare and capacity coordination between the airlines, which used to be a common practice, has already been prohibited. Heightened competition will profoundly alter the profile of aviation in Europe. Indeed, the airline industry has already become more and more concentrated: British Airways has merged with British Caledonia, and Air France has acquired UTA and Air Inter. New alliances are also being negotiated: British Airways with KLM, and Air France with Sabena. Lufthansa for its part sees no advantages to itself in such mergers and alliances. We intend to grow from our own internal resources since we believe that this is the only means of ensuring the

identity of our quality, made-in-Germany service, as well as our unambiguous profile in the marketplace.

Quite naturally, the results of these competitive strategies render a prognosis rather difficult, but there are clues as to how an airline will have to conduct its business in order to successfully meet these structural changes.

Important insights can be gained from developments in the United States following the passage of the Airline Deregulation Act under the Carter Administration in 1978. At first, the number of airlines multiplied with the decontrol of routes, capacity restrictions, and fares, and the newcomers exercised considerable pressure on the established airlines with deep-discount fares. Today, after more than ten years, the result of deregulation is that three major airlines control 60 percent of the American market.

The evolution of a supply oligopoly should have come as no surprise. The airline industry is a specialized business in which classical theories of competition cannot be applied uncritically. The competitiveness of an airline is not determined by innovation and low fares alone. Rather, the capacity to build up a route system that meets the diverse travel needs of its customers is the decisive factor. Next to an attractive, comprehensive schedule, marketing is the second pillar of the business. Therefore, a successful airline must control a computer reservation system.

A Few Will Win the Game

Competition in the 1990s in the U.S. and Europe will favor those who strive to service a very broad territory. In Europe, too, only a few airlines will be winners in the race to become a global player. Competition, conducted fairly, offers more opportunities than burdens. Even though enormous challenges will have to be met in the

We are confronted with unfair competition on the North Atlantic route.

adjustment phase, the final result of the process will be a dynamic, customer-oriented airline that will be in a position to offer quality at attractive fares.

We are confronted with unfair competition on the North Atlantic route. The large U.S. airlines are permitted to service any German city they choose and then use it as a hub to service other destinations in Europe. As a result, the American carriers have a distribution network in Europe as well as the United States. By contrast, Lufthansa is not permitted to build up a comparable network in the U.S. and can only service a limited number of cities. We are pressing at the negotiation table for a solution that adheres to the principle of fair and equal opportunity.

Airport capacity in Germany and Europe is too small. To be sure, some welcome relief will be provided in 1992 with the opening of an international airport in Munich on May 17. It will be one of the most modern facilities of its kind, offering travelers a level of comfort

One of Lufthansa's fleet of Boeing 747's.

and convenience unavailable elsewhere in Germany. Expeditious transfers, ticketing, and baggage handling will assure maximum convenience. The new airport will be fully integrated into Lufthansa's route network 24 hours after it is inaugurated.

In addition, the system of air corridors and air safety in Europe must be modernized. While available technologies are quite advanced, there has been a lack of political will to start work without delay on setting up a unified European safety system. Despite these unfavorable conditions in the competitive environment, we will exploit the opportunities at hand to expand the choices we offer our customers.

Outlook

The Gulf crisis affected Lufthansa, but we emerged in better shape than many of our European competitors. In contrast to British Airways, Air France, and several other airlines, we did not release any of our employees. We hoped this would reinforce their confidence in management and their commitment as well, a particularly important factor for a service business. We maintained our regular schedule for the most part during the crisis.

Overhauling an aircraft takes 15,000-30,000 work hours.

The market rewarded this strategy, and we carried significantly more passengers and freight than the other European airlines.

Granted, a weak market and higher fuel costs hurt our bottom line, i.e., we registered a loss of DM 331 million in the first half of 1991. However, in keeping with our conservative financial policies, we have set aside sufficient reserves in the past to cover this shortfall. There are already signs that a recovery is underway: financial results in the last few months have been solidly positive. While we will probably register a loss for the 1991 business year, we have certainly overcome the business problems engendered by the Gulf crisis.

Lufthansa is prepared for the competitive arena of the 1990s. In view of our organization's dedication to customer satisfaction, we will succeed, even in the face of greater demand, in converting our strengths—quality and reliability—into attractive products. □

Lufthansa's base in Hamburg.

Überblick

Herausforderung des kommerziellen Luftverkehrs im vereinigten Deutschland und im EG Markt 1993

Deutschland ist wie kaum ein anderes Land in den internationalen Handel eingebunden. Deshalb kommt der Luftfahrt eine Schlüsselrolle zu. Es ist kein Wunder, daß die wirtschaftliche Entwicklung der Lufthansa die Entwicklung der deutschen Wirtschaft widerspiegelt. In den vergangenen 10 Jahren hat sich der Umsatz der Lufthansa fast verdoppelt auf heute fast DM 13 Milliarden.

Zwei Ereignisse beeinflussen die weitere Entwicklung unseres Unternehmens in besonderer Weise: die friedliche Wiedervereinigung unseres Landes und der bevorstehende europäische Binnenmarkt ab 1993.

Das Umfeld, in dem wir tätig sind, ist sehr komplex. Eine fundierte Prognose über die zukünftige Nachfrageentwicklung im Luftverkehr machen zu wollen, ist äußerst problematisch. Dennoch lassen sich einige grundsätzliche Aussagen treffen.

Die wirtschaftliche Entwicklung sowohl im Heimatmarkt als auch die globale Entwicklung ist Basis jeder Luftverkehrsprognose. Wir schätzen die wirtschaftliche Entwicklung auch für die weiteren 90er Jahre im Grundsatz positiv ein. Vor allem die Länder der asiatischpazifischen Region werden weiterhin hohe Zuwächse aufweisen. Die weltweite politische und militärische Entspannung hat dabei für unseren Heimatmarkt Europa neue Perspektiven eröffnet.

Wir haben uns seit der Eröffnung Ostdeutschlands intensiv und mit Erfolg darum bemüht, die 40 Jahre der Teilung unseres Landes zu überwinden. Nach nur kurzer Vorbereitungszeit ist es uns gelungen, einen leistungsfähigen Luftverkehr nach Berlin und in die fünf neuen Bundesländer der Bundesrepublik Deutschland aufzunehmen. Heute bereits fliegen wir 875 wöchentliche Frequenzen nach Berlin, Dresden und Leipzig.

Lufthansa hat die Chancen der Entspannung rechtzeitig erkannt und frühzeitig ein umfangreiches Flugangebot nach Osteuropa aufgebaut. Zur Zeit sind wir mit deutlichem Abstand größter westlicher Carrier im Verkehr nach Osteuropa. Lufthansa bietet mehr Osteuropa-Flüge als die Nummer 2 und 3 - Air France und AUA - zusammen. Von sieben deutschen Städten aus bieten wir Direktverbindungen zu den wichtigsten Destinationen in Osteuropa an.

Wir glauben, daß die Nachfrage nach Reisen und Transportleistungen in Richtung Osteuropa auch zukünftig überdurchschnittlich wachsen wird.

In Westeuropa wird der Binnenmarkt ab 1993 einen einheitlichen Markt mit rund 340 Millionen Verbrauchern entstehen lassen. Die jüngsten Vereinbarungen mit den Efta-Ländern Nord- und Mitteleuropas lassen diese ab 1993 näher an den Binnenmarkt heranrücken. Die damit verbundenen wirtschaftlichen Chancen lassen auch für den Luftverkehr kräftiges Wachstum erwarten.

Der Wettbewerb in den 90er Jahren wird in USA und Europa diejenigen begünstigen, die sich um eine hohe Marktabdeckung bemühen. Wenn auch in der Unstellungsphase große Schwierigkeiten überwunden werden müßen, besteht doch am Ende eines Wettbewerbsprozesses ein dynamisches, kundenorientiertes Unternehmen, das Quälität zu günstigen Preisen anbieten kann.

Unfairem Wettbewerb sind wir auf dem Nordatlantik ausgesetzt. Die großen amerikanischen Fluggesellschaften können jede deutsche Stadt ihrer Wahl anfliegen und sie zugleich als Drehscheibe für europäische Anschlüsse benutzen. Die US Carriers haben damit sowohl in den Vereinigten Staaten als auch in Europa ein Verteilernetz. Die Lufthansa hingegen kann darauf ein vergleichbares Netz in den USA nicht aufbauen. Die Flughafenkapazitäten in Deutschland und Europa sind unzureichend.

Zusätzlich müssen das System der Luftstraßen und die europäische Flugsicherung dringend modernisiert werden. Die technischen Möglichkeiten sind zwar weit fortgeschritten. Allerdings fehlt es nach wie vor an dem gemeinsamen politischen Willen, unverzüglich mit dem Ausbau einer einheitlichen europäischen Flugsicherung zu beginnen.

Lufthansa ist für den Wettbewerb der 90er Jahre gerüstet. Mit einer auf die Kundennachfrage ausgerichteten Konzernorganisation wird es uns gelingen, auch bei großem Produktionszuwachs unsere Stärken Qualität und Zuverlässigkeit - in attraktive Produkte umzusetzen. □

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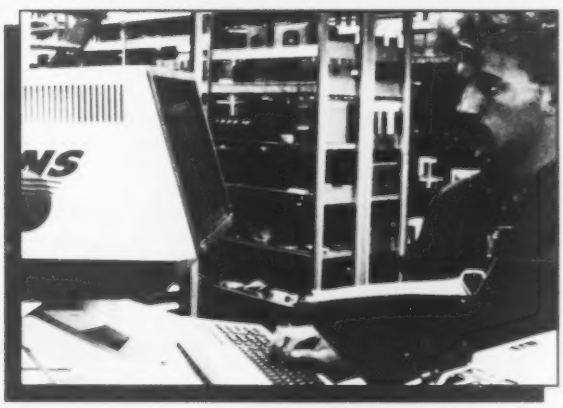
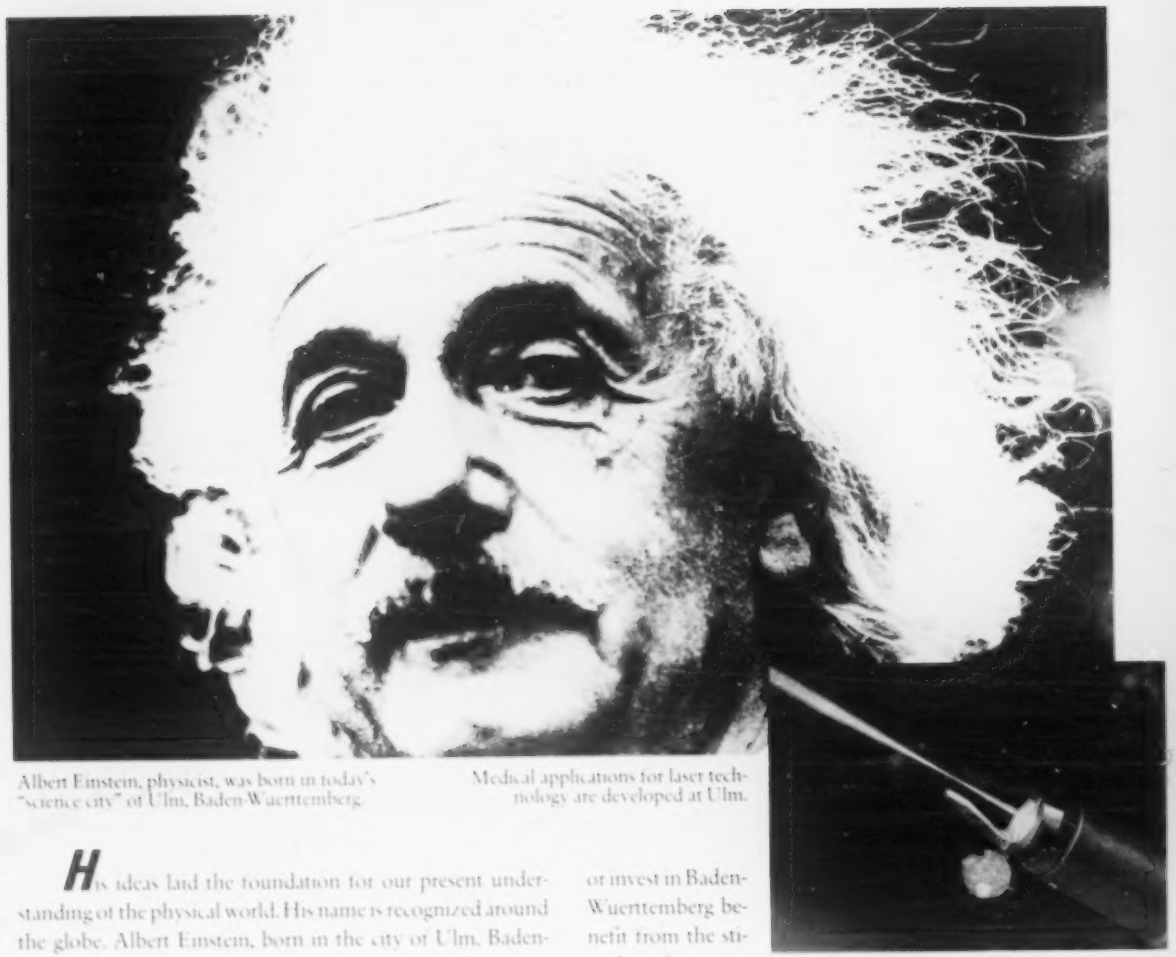
CORPORATE STRATEGIES



Success = Ideas x Energy.



Albert Einstein, physicist, was born in today's "science city" of Ulm, Baden-Wuerttemberg.

Medical applications for laser technology are developed at Ulm.

His ideas laid the foundation for our present understanding of the physical world. His name is recognized around the globe. Albert Einstein, born in the city of Ulm, Baden-Wuerttemberg, established the theory of relativity. His formula $E = mc^2$ made possible the development of atomic energy.

Great as he was, Einstein is just one of many bold, innovative minds working in science and engineering in Baden-Wuerttemberg. Leading edge industries and research centres have found a supportive environment around the unique science city of Ulm and the Karlsruhe Atomic Research Centre to its west. An entrepreneurial, practical spirit runs through all this research and development activity. Companies that locate or invest in Baden-Wuerttemberg benefit from the stimulus of constant innovation, share in the latest technology, and have a hot-line to suppliers and technological partners who will keep them on the cutting edge of success.

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Baden-Württemberg

South West Germany

Einer der Großen im europäischen Markt

Making it Big in the European Market

Oliver Neumann
Deere & Company
Mannheim

It all started with a tractor called the Bulldog.

The Federal Republic of Germany can look back upon a longstanding tradition of success in farm equipment manufacturing. Although most German companies have served the domestic market primarily, some have made major contributions to the mechanization of agriculture in Europe and in other parts of the world.

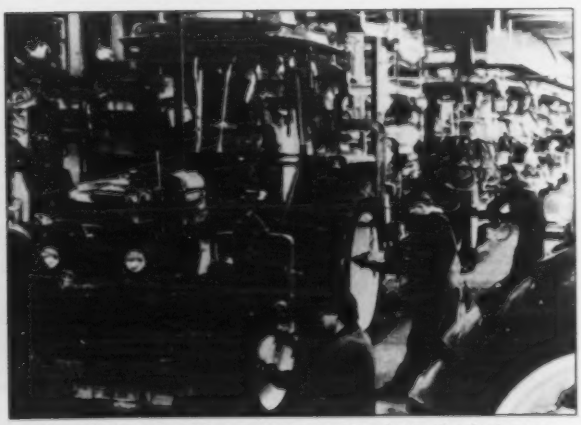
One name that stands out is Heinrich Lanz of Mannheim. The first crude oil tractor—the famous Lanz-Bulldog—was developed and introduced there in 1921. This reliable machine, which helped the farmers cut costs by two-thirds, represented a major step into a new era of agricultural mechanization and modern farm management.

Early Success and Growth

Lanz soon started to market tractors successfully in other European countries, as well as overseas markets. In fact, in the late '30s the Mannheim factory was unable to meet the world-wide demand for its tractors, and manufacturers around the globe started to copy the Bulldog tractor concept.

Heinrich Lanz had become Germany's Number One tractor supplier before World War II, with domestic market shares of more than 40 percent, but in the summer of 1942 Lanz had to halt tractor production and turn the Mannheim factory to war-related equipment.

After World War II the factory found itself in an extremely difficult position. Lanz's factory site had been almost completely leveled by Allied bombing. Major markets in eastern Germany and Eastern Europe were locked behind the iron curtain. Furthermore the enormous investments required to restore the factory precluded many available funds for necessary research and development. This resulted in a substantial loss of competitiveness. Heinrich Lanz of Mannheim became a take-over candidate.

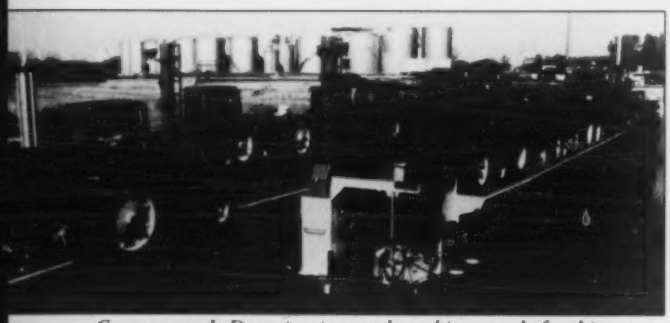


In Mannheim, John Deere tractors receive their wheels during final assembly in the factory.

The Roots of John Deere

Deere & Company was originally founded in 1837 by the Illinois blacksmith John Deere, who invented a self-polishing steel plow. His product was well received by midwestern farmers and eventually he had to build a factory to satisfy the growing demand. So, John Deere moved from Grand Detour, Illinois to Moline, a more suitable site for his growing business because this frontier town was on the Mississippi River, an important advantage being water power and transportation.

The story of John Deere's company is the story of rural America from the time eastern farmers began moving into the Midwest in the early 1800s, through the American industrial revolution of the late 19th and early



German-made Deere tractors and combines ready for shipment to overseas markets.

20th centuries to today's challenging agricultural scene.

Today John Deere is the world's leading producer of agricultural equipment and markets a full line of tractors, combines, tillage tools, planters, harvesting equipment and other implements. Deere also produces and markets a broad line of mowers and other equipment for homeowners and commercial users, including tractors, turf care equipment and other outdoor power products. John Deere ranks among the leading suppliers of construction and forestry equipment, as well as powertrain products such as engines, axles, transmissions and hydraulic components for off-highway use.

Exploring Opportunities Abroad

Until the '50s Deere & Company manufactured its farm equipment products in the United States exclusively and enjoyed a stable market position in North America.

But overseas, Deere's export sales were dropping significantly in most countries due to the foreign exchange problem—an impediment to imports and an argument to start building farm machinery overseas. To become established in manufacturing abroad, Deere essentially had two alternatives. One was to take the *greenfields* approach—start a new manufacturing unit from scratch in one or more countries. The other was to purchase an existing farm equipment manufacturer.

Deere Moves into Germany

Deere & Company chose the latter. In 1956, following a proposal of company president William A. Hewitt, the board of directors decided to purchase the majority of shares of Heinrich Lanz AG, held by the Deutsche Bank.

Looking back on the early days in Europe, Hewitt once told a *Forbes* editor: "I'd say our competitors had a 50-year jump on us...literally." Deere had to learn about the special characteristics of agriculture in the countries where it intended to sell equipment. Tractors on European farms had to perform tasks much different from those in the U.S. Equipment dealers sold a wider variety of brand names instead of selling equipment on an exclusive basis. Labor conditions in European factories were much different from those in North America.

Both the German and American parties to this relationship needed time to get acquainted. Large investments had to be made in Mannheim to modernize the factory. After an investment of more than DM 53 million, Deere introduced its first Mannheim-made tractors in 1960, succeeding the *Bulldog*. Since 1921, 219,253 of these sturdy tractors had left the Mannheim factory.

Lanz's market share in Western Europe meanwhile had dropped to an insignificant 1.9 percent. But now Mannheim's new products began to regain the lost ground — 4.6 percent in 1970, 8.1 percent in 1980 to 10.8 percent today. Domestic market shares also began to recover — 5.6 percent in 1970, 8.8 percent in 1980, 10.8 percent in 1990.

In the '80s a rapidly declining demand for farm equipment within European agriculture significantly affected the production schedules of European tractor manufacturers. Western European sales decreased from 300,000 units annually in 1980 to just under 200,000 units today. In the same period the German market collapsed from 46,000 units per year to 31,000 units.

Despite the ongoing recession, Deere invested continuously in its German assets. Between 1961 and 1991 Deere spent DM 700 million to modernize Mannheim, its largest factory outside North America. A major portion of those investments were spent on environmental protection measures at the foundry operations, one of Germany's largest gray iron casting suppliers.

Within the next five years another DM 200 million will be invested in Mannheim in state-of-the-art manufacturing and assembling facilities, and ten percent of these investments will be dedicated to environmental protection.

These investments are aimed to build on Deere's position as the Number One tractor manufacturer in Germany—which the company has held for the past 18 years. Half of all tractors produced in Germany come from Deere's Mannheim factory.

Today, the 4,000 employees of the Mannheim factory assemble 19 models for export to 85 countries on five continents.

Deere's European office has full responsibility for the Company's operations in seven sales branches and six John Deere factories in Europe, Africa and the Middle East. The European office administers and supports all business activities in markets where Deere is represented either by its own sales branch offices or import dealers. In Europe all major national markets have their own sales branch offices: Germany, UK, France, Spain, Sweden and Italy.

Deere's German Harvester Works

When Deere acquired Lanz in 1956, it also purchased a factory that manufactured haying and forage harvesting equipment in Zweibruecken. This company had been founded by the Rhineland-Palatinate Christian Wery in 1863 and was acquired by Heinrich Lanz in 1931. In the early '60s Deere decided to develop and manufacture combines for Europe and other markets in Zweibruecken. Between 1962 and 1971 the company invested DM 47 million in modernizing the factory. As

one of the major employers of the region, today the John Deere Werke Zweibruecken is able to satisfy the needs of 70 markets in Europe, Africa, the Middle East and overseas.

The western European demand for harvesting equipment has decreased even more dramatically than the tractor market in the past decade. Today sales of combines are only about 50 percent of what they used to be in 1980. Deere's answer to the challenges: investments in greater manufacturing flexibility and market-oriented production.

In 1983 the John Deere Werke Zweibruecken opened a new product-engineering center for the development of harvesting equipment. With CARAT (Computer-Aided Reliability Assurance Test facility), the Zweibruecken factory developed a unique test station that brings field conditions into the factory. In 1991 Deere opened a completely new DM 27 million paint facility where water-soluble paint is being applied to all major equipment components.

About 15 percent of this investment was dedicated to environmental protection. And, to improve capacity utilization, Deere will begin producing a new line of self-propelled forage harvesters in Zweibruecken in 1992. Four models, 250 to 410 hp, will be assembled for the world-wide forage harvester market. These machines were, so far, manufactured in a John Deere plant in the U.S.

A New Site in Bruchsal

In the late '70s the Company decided to take a *green-fields* approach after all. Deere purchased a larger industrial site in Bruchsal, about 50 kilometers south of Mannheim, to set up a new factory to make integrated tractor cabins. After two years of construction, the DM 70 million facility began operations in September 1981. Today 500 employees assemble cabins for tractors, combines and forage harvesters. The product line encompasses two basic tractor cab models with a wide variety of features including low profile options and even air conditioning. All cabin types are delivered to the Mannheim and Zweibruecken assembly lines on a *just-in-time* basis.

Today, John Deere maintains a remarkable position among domestic farm equipment suppliers in Germany: it is the sales leader and—with 6,300 employees—the industry's largest employer in Germany, and, as mentioned earlier, Germany's largest tractor manufacturer.

As of 1993, the economic unification of the European Community is expected to bring some welcome advantages, such as the standardization of technical regulations, which will simplify production and reduce costs, and facilitate transportation of products as borders are opened.

Deere's German operations are well prepared to match the future challenges in Europe. And there are quite a few of them: the rapidly declining number of smaller farms in western Europe, uncertainties about the development of producer prices as the result of GATT negotiations will lead to a smaller customer base. At decreasing subsidies and remaining production levels a number of farms will be forced to pull out of the business. Fewer farmers will need fewer but bigger machines to cultivate and harvest their farmland. The remainder of former cooperatives in eastern Germany will become increasingly competitive and require equipment of a size which John Deere already has been offering for decades.

Deere's Most Valuable Asset: Its Employees

Anywhere in the world, there is always something that distinguishes one company from another. At John Deere, human values have traditionally contributed to the company's long-standing business success to a great extent.

A growing generation of future employees gets a thorough education at John Deere's various manufacturing and administrative operations. These young people are trained for the application of state-of-the-art production technologies in Deere's facilities, one key element to the future success of Deere's commitment in Germany. □

Überblick

Einer der Großen im europäischen Markt

John Deere gehört seit seiner Gründung im letzten Jahrhundert zu den großten Herstellern landwirtschaftlicher Nutzfahrzeuge. Während die Firma seit den fünfziger Jahren in den USA einen soliden Marktanteil hielt, verlor sie aufgrund der Abhängigkeit von den jeweiligen Wechselkursen in anderen Ländern jedoch erhebliche Marktanteile. Grund genug also, dort eigene Produktionsstätten zu errichten. Dafür boten sich zwei Alternativen an: entweder auf der grünen Wiese eine vollkommen neue Fabrikationsstätte aufzubauen, oder einen anderen Hersteller zu übernehmen. John Deere entschied sich fur letzteres. 1956 wurde einem Vorschlag des damaligen Präsidenten der Firma, William A. Hewitt, folgend, die Mehrheit der Aktien der Lanz AG, die von der Deutschen Bank gehalten wurden, übernommen.

Heute produzieren die 4000 Arbeitnehmer der Mannheimer Firma 19 verschiedene Traktorentypen für den Export in 85 Länder auf fünf Kontinenten. Die europäische Niederlassung von John Deere trägt die Verantwortung für sieben Verkaufsbereiche und sechs Industriebetriebe von John Deere in Europa, Afrika und im Mittleren Osten.

John Deere hat heute eine bemerkenswerte Marktposition bei der Herstellung von landwirtschaftlichen Geräten und Nutzfahrzeugen in der Bundesrepublik Deutschland inne: es hat in diesem Bereich die größte Zahl von Arbeitnehmern und ist Deutschlands größter Traktorenhersteller.

Der Binnenmarkt 1993 verspricht große Produktionsvorteile: Die Normung vieler Teile wird die Produktion wesentlich vereinfachen und die Kosten deutlich reduzieren. John Deere ist für die Herausforderungen des Binnenmarktes gut vorbereitet. □

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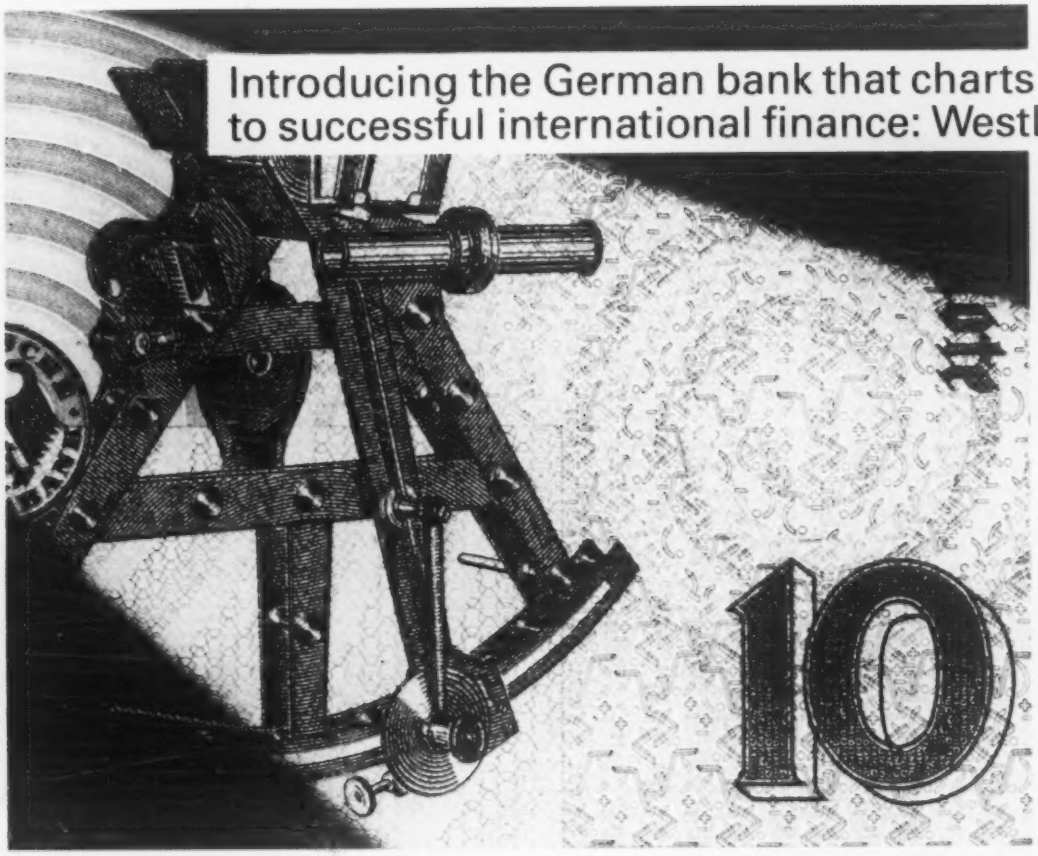

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HB II: Eine Untersuchung von Price Waterhouse zur Umsetzung der neuen deutschen Konzernrechnungsbestimmungen in den USA

HB II: Meeting the Challenge

Price Waterhouse

Introduction

The implementation of HB II requirements by U.S. Subsidiaries of German companies was by and large completed in a transition phase between 1987 and 1990. For many of these enterprises, this period was challenging — particularly so for those that could not expect much support from either the parent company or its advisors and consultants. While the transition is now over, HB II requirements will continue to affect U.S.-based companies due to acquisitions, mergers or changes in the size or legal status of the parent company. The implications will be more or less of the same nature as those faced by the first users. Questions are sure to be raised regarding applicability, the time frame for adoption, staff resources, training, EDP use, and — not least — the type of support that can and should be expected from accounting firms.

Recognizing the central importance of HB II, the German Practice Group of Price Waterhouse conducted a survey among a wide variety of U.S. based susidiaries of German companies in order to develop a "primer" for all companies now implementing HB II requirements or preparing to do so. This survey report offers valuable hints for companies that have already passed through the HB II introductory phase, and it presents newcomers with useful practical guidelines. The report will have served its purpose if companies are enabled to implement HB II requirements more knowledgeably and smoothly.

No legislation in the past decade has had greater impact on German corporate reporting and the Commercial Code than the Accounting Directives Law. Created to reflect the increased international activity of German businesses and to meet the need for minimum reporting standards, this law represents "a wholesale change to the Commercial Code, which now contains accounting principles that are applicable to all legal forms and sizes of business." [1]

The changes effected by the law cover all three of the major areas of the reporting process: financial statements generated by both companies and conglomerates, the audit of the statements and the opinion itself.

Summary of Important Changes

- Financial statements are now not only comprised of a balance sheet and a profit-and-loss statement but must include comprehensive notes.
- Consolidated financial statements, including notes, must be prepared on a worldwide basis rather than only for the parent and domestic subsidiaries.
- With the exception of all but small AGs and GmbHs, corporations will be subject to annual statutory audit.
- All GmbHs are required to file/ publish financial information, as opposed to the previous procedure wherein only very large corporations were affected by the Publicity Law.

When should a company start planning for changes of this kind? What role should the parent play in the process? What role is the parent obligated to play in the process? What resources are employed in implementing the HB II changes? What general problems arise in meeting these requirements? How can they be successfully addressed?

Price Waterhouse posed these questions about planning, preparation and reporting to more than a thousand German businesses in the United States. Approximately 15 percent of the companies, representing a broad cross section of this nation's businesses, shared their experiences with us.[2]

To analyze the survey results more effectively, respondent companies are divided on the basis of revenues into small, midsize and large. The breakpoints are as follows: small companies generate less than $10 million in revenues; midsize companies more than $10 million and less than $100 million; large companies more than $100 million.

HB II Size Criteria

Consolidated financial statements are not legally required if the following criteria are met ($1 = DM 1.80):

Group Size Limits Computed on a Consolidated Basis	
Consolidated Balance Sheet	≤ DM 39 mio. ($21.7 mio.)
Consolidated Sales	≤ DM 80 mio. ($44.4 mio.)
Number of Employees	≤ 500
Group Size Limits Computed on a Combined Basis	
Combined Balance Sheet Totals	≤ DM 46.8 mio. ($26 mio.)
Combined Sales	≤ DM 96.0 mio.($53.3 mio.)
Number of Employees	≤ 500

Determining the Requirements

The overwhelming majority of all companies surveyed (92 percent) prepare U.S. GAAP, while more than 73 percent also supply their parent with additional information.

Narrowing our focus to midsize and large companies: 43 percent responded that they are legally required to supply U.S. financial statements, while 69 percent prepare German reporting packages We believe that the larger companies included in the 43-percent group legally required to prepare U.S. financial statements are also required to prepare additional German accounting information.

This assumption leads to the conclusion that for approximately every third company in these groups, German accounting information is furnished on request and U.S. finstats are prepared voluntarily. Considerable cost savings might be available for these companies if the audit provided what is actually needed, that is, German accounting information.

Importance of Outside Sources
(Percentage of All Respondents)

Recourse to professional literature	10%
Seminars provided by CPA firms, together with other aids	10%
Professional literature in combination with other aids	7%
Other	3%
Did not turn to outside sources	70%

For small companies, it is not surprising that as many as 55 percent of those surveyed would probably be able to obtain similar savings.

Fifty-seven percent of those responding reported that their German parent company is legally required to prepare consolidated financial statements, whereas 5 percent stated that their parent is not legally required to obtain this information—which leads us to conclude that 38 percent of the subsidiaries remain uncertain as to their parents' obligations and need clarification.

Planning: Priorities and Expertise

Seventy-two percent of the large companies surveyed have already reported under German GAAP prior to 1990. However, only 35 percent of the small companies and 49 percent of the midsize companies indicated that they were required to report under German GAAP prior to that year.

Projected estimates for the additional time needed to meet the new German reporting requirements vary in relation to the size of the companies surveyed: small companies (66 percent) expect to spend up to 40 hours to complete the necessary work. Some midsize companies (42 percent) believe they will require anywhere from 11 to 40 hours, while others in this group (38 percent) expect to spend between 41 and 120 hours on the additional requirements.

With respect to large companies, time estimates can be broken down into two groups: one (42 percent) expecting to complete the additional requirements within 11 to 80 hours, the other (37 percent) within a period of 121 to 500 hours. This leads to the conclusion that there are two different levels in both the scope of manpower and the sophistication of accounting software and computing equipment.

Help Provided by the Parent
(Percentage of All Respondents)

Written in-house instructions only	40%
Seminars and in-house instruction both provided by the parent	22%
Professional literature as well as instructions and seminars provided by the parent	4%
Other	4%
No answer/Did not know	30%

In assessing the adequacy of their manpower and expertise, more than half of the companies (large, 84 percent; midsize, 72 percent; small, 54 percent) expressed confidence that their manpower and expertise sufficed to deal with the new accounting requirements. However, among smaller companies, 39 percent responded that they were not adequately prepared to comply with the regulations.

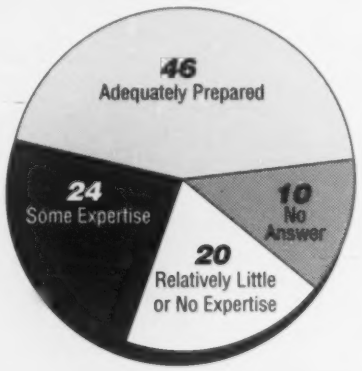
As early as 1989, a number of aids (seminars, professional literature, customized in-house instruction guides and forms) were made available by various sources to explain the changes in HB II. More than half of the midsize companies participating in our survey (63 percent) reported that they received in-house instruction. An even greater number of large companies (80 percent) obtained similar help. Often this information was augmented by other types of support: for example, 10 percent of our respondents had recourse to seminars provided by the parent. Small companies did not fare as well, with only 43 percent receiving written instructions and 54 percent not provided with any material at all.

Preparation: The Reporting Package and Accounting System

For most companies, the reporting package is the preferred form to accomplish the reporting requirements (large, 80 percent; midsize, 69 percent; small, 54 percent). Not surprisingly, the use of handwritten documentation to generate data varies with the size of the company (large, 12 percent; midsize, 20 percent; small, 35 percent). A surprising 50 percent of small companies responding have adapted their computerized accounting systems to generate the accounting data now required, while fewer than half (44 percent) of the large enterprises have already done so. One reason for this trend may be that fewer small companies prepare U.S. financial statements, hence they would be more likely to set up their accounting systems to accommodate German accounting needs.

Over half of the large companies surveyed (56 percent) contributed directly to either the design of the

Preparedness and Expertise
(Percentage of All Respondents)

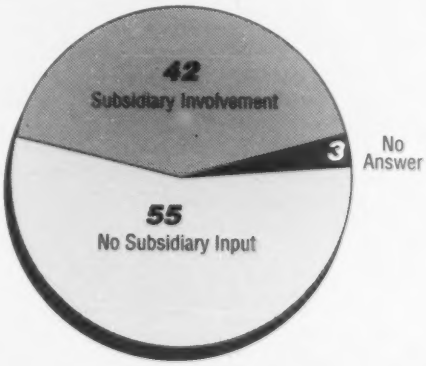


reporting package or the setup, as opposed to only 35 percent of the smaller firms. Similarly, a decline was also noted in terms of availability: a larger number of small companies (35 percent) have not yet received a package from their parents; in contrast, only 12 percent of the large companies have not yet received a reporting package. These data indicate that some of these businesses are small enough not to be affected by the changes (Article 296 of the German Commercial Code).

Most of the reporting packages (80 percent) distributed to large and midsize companies are printed in English, in contrast to those provided to small companies (54 percent). This feature elicited positive responses among large companies, which emphasized that they had no difficulty in understanding the instructions. However, reporting packages written in English were less helpful to midsize companies; only half (51 percent) reported satisfaction with their instructions. It seems that about 50 percent of small and midsize companies may need help in interpreting their instructions.

Of all the companies questioned, 67 percent have considered modifying their accounting systems to cope with the new requirements; 60 percent would either engage their parent company or their auditor; 4 percent would consult a CPA firm other than their own auditors; 8 percent would call in an outside consultant; and 28 percent are still undecided.

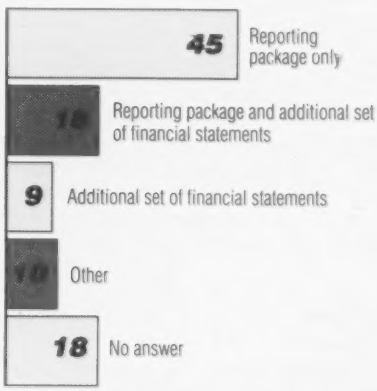
Subsidiary Involvement
(Percentage of All Respondents)



Identifying Problem Areas

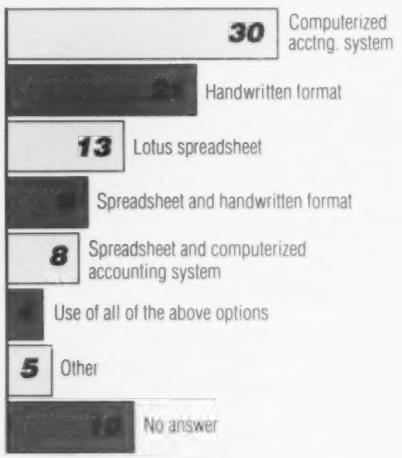
What constitutes a good reporting package, and what basic modifications should be made in a company's accounting system to generate the data required by the new regulations? There is no single answer to these questions. Each company will adapt even the best of packages to its own specifications. But good reporting packages integrate forms and features that meet the following needs:

Reporting Format Used
(Percentage of All Respondents)



- With respect to reclassifications, proper documentation of the transition from the U.S. financial statements to the HB II report must be adhered to and reflected in the records.
- Internal consistency of forms, enclosures and annexes in those instances when balance sheet captions and P&L lines must reconcile with respective enclosures and annexes; this should be explicitly indicated.
- The principle of Offset Prohibition must be applied carefully, particularly with respect to income and expense items. The package instructions should clearly emphasize this point.
- Fixed Asset and Provision Development Schedules are often not fully understood, giving rise to numerous errors. The concepts behind these schedules should be explained in detail.
- Instructions should emphasize the distinctions between Trade Payables, Provisions and Other Liabilities for German purposes.

Means of Generating Data
(Percentage of All Respondents)



- There should be precise procedures for the proper reconciliation of intercompany balances.

Recommendations

The following recommendations may be useful as reminders to experienced companies and as hints for newcomers to HB II requirements:

- Familiarize yourself with instructions and standard forms as soon as possible.
- List issues and specific HB II items that require further clarification.
- Develop and continuously update organizational procedures as experience is gained.

Certain line-item captions may very likely cause valuation or recognition differences between U.S. GAAP and German GAAP. Therefore, the following items should be reviewed at an early stage and discussed with respect to the parent company's accounting principles:

- Goodwill with respect to different amortization periods
- Formation and start-up expenses with respect to different recognition principles
- Fixed assets with respect to capitalization of interest and different depreciation periods
- Financial assets with respect to the prohibition of equity accounting in the single entity's financial statements.
- Securities with respect to the item-by-item valuation
- Inventories with respect to the different interpretations of the "Lower of Cost or Market" principle
- Long-term construction-type contracts with respect to the prohibition of the percentage-of-completion method
- Provisions with respect to a more conservative recognition and valuation principle under German GAAP. (A comprehensive listing of possible provisions under German GAAP can be found in the Price Waterhouse booklet, Comparative Presentation of Accounting and Reporting Requirements Under U.S. GAAP and German GAAP.)
- Foreign receivables and payables with respect to the prohibition of unrealized exchange gains

Whenever differences between U.S. and German accounting requirements are identified, the subsidiaries should be informed and comprehensively instructed as to how to deal with these different requirements. □

Footnotes and Key Publications

[1] Jermyn P. Brooks and Dietz Mertin, *Neues deutsches Bilanzrecht/New German Accounting Legislation*, IDW-Verlag: Dusseldorf, 1986

[2] *Comparative Presentation of German and United States Auditing Standards (PW)*

Comparative Presentation of Accounting and Reporting Requirements Under U.S. GAAP and German GAAP (PW)

Accounting for U.S. Operations of German-Owned Companies (PW)

These publications may be obtained from any Price Waterhouse office.

Überblick

HB II: Eine Untersuchung von Price Waterhouse zur Umsetzung der neuen deutschen Konzernrechnungsbestimmungen in den USA

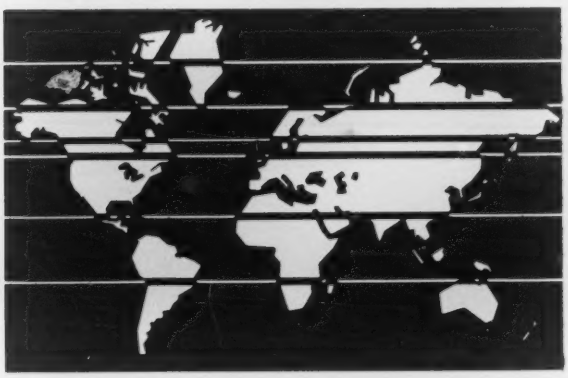
In den letzten Jahren hatte kein Gesetz eine bedeutendere Auswirkung auf die Rechnungslegung von Kapitalgesellschaften und das Handelsgesetzbuch als das Bilanzrichtlinien-Gesetz.

Die durch dieses Gesetz verursachten Änderungen betreffen alle drei Bereiche der Rechnungslegung: die Erstellung von Einzel- und Konzernabschlüssen, die Prüfung dieser Abschlüsse und den Bestätigungsvermerk. Daraus ergeben sich folgende Fragen: Wann sollte eine Gesellschft mit der Planung aufgrund dieser Änderungen beginnen? Inwieweit sollte bzw. muß die Muttergesellschaft in diesen Prozeß einbezogen werden? Welche Hilfsquellen müssen für die Umsetzung der neuen Vorschriften für die HB II bereitgestellt werden? Welche allgemeinen Probleme treten bei der Umstellung auf? Wie kann man sie möglichst erfolgreich lösen?

Price Waterhouse legte diese Fragen zur Planung, Durchführung und Erstellung des Jahresabschlusses mehr als eintausend deutschen Tochtergesellschaften in den USA vor.

Die vorstehend abgedruckte Zusammenfassung dieser Umfrageergebnisse ist als 8 seitige Brochüre in deutscher und englischer Sprache von den einzelnen Price Waterhouse Büros erhältlich. Von der Darstellung der rechtlichen Rahmenbedingungen über die Erfahrungen und Probleme im Planungsprozess und bei der Berichterstattung, sei es mittels manueller oder computerisierter Systeme, führt die Broschüre schließlich zu einem Katalog von typischen Schwachpunkten und Empfehlungen, die dem Praktiker unbedingt nützlich sind: Als Leitfaden für Gesellschaften, die erstmals auf die neuen Rechnungslegungsvorschriften umstellen und als Checkliste für all diejenigen, die HB II bereits implementiert haben. □

Global Services:
A View from Price Waterhouse



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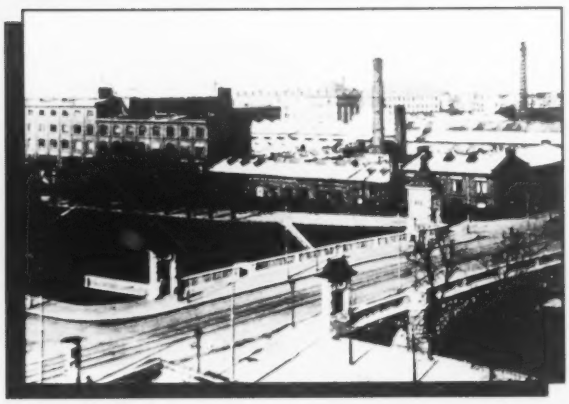
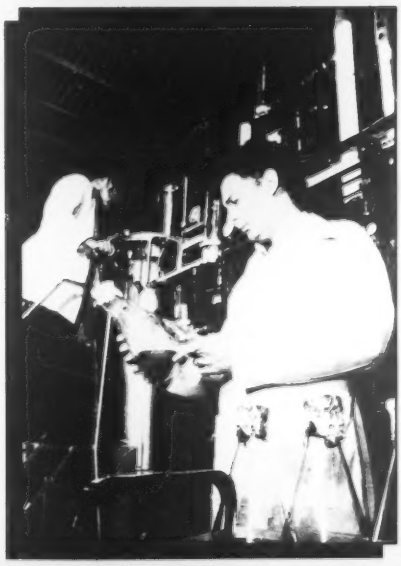


ECONOMIC DEVELOPMENT



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BASF

Sachsen erneuert seine Wirtschaft

Saxony Rebuilds Its Economy

Kurt H. Biedenkopf
Minister President
State of Saxony

The process of restructuring the economy of Saxony is running at full speed. Of the approximately 3,000 agencies in the Trust Agency's portfolio, over 1,200 had been privatized by the end of October 1991. Up to September 1991, 73,200 new businesses were registered: The private sector of the economy is growing nicely.

There are, however, still important problems to be overcome. Despite the high number of short shifts being worked and the long lines in government unemployment offices, employment in Saxony has fallen drastically. In November 1991, there were 282,000 unemployed, which amounts to a jobless rate of 10.7 percent, which is the lowest in the new states of eastern-Germany. In September 1989, i.e., before economic and monetary union, just over 50 percent of a workforce that numbered around 2.6 million at the time were employed in industry. Between July and September 1990, 70 percent of the decline in employment occurred among people employed in industry, with industry's share of output dropping from 53.4 percent to 50.8 percent.

Flexibility and Adaptation

In Saxony we can witness almost under laboratory conditions the effects of an attempt to change a command economy into a market economy and the tasks that arise when forty or fifty years of totalitarian structures and their consequences must be overcome.

When the border opened at the end of 1989, companies in Saxony found themselves unable to compete with efficient Western firms. They were over-staffed, producing with obsolete equipment. They had virtually

Breaking up the old industrial conglomerates into smaller, more comprehensible units will create buying opportunities that really appeal to medium-size companies.

no viable marketing organization, and their traditional markets in Eastern Europe had collapsed. These changed conditions would have posed enormous difficulties even for streamlined businesses in a market economy. To make things worse, firms in Eastern Germany never had developed the flexibility and capacity to adapt that are so necessary in a market economy. There is a lack of organizational structure and management talent to foster and help the learning process.

The restructuring of the economy in Saxony will require a multidimensional approach. On the one hand, capital equipment must be modernized; on the other — and this is a fundamental prerequisite — the business philosophy will have to change: firms must become

The remnants of the Frauenkirche in Dresden, with the Luther Monument in the foreground. It is due to be rebuilt.

economic entities accountable to themselves. In this regard, the privatization of the formally state-owned plants is of central importance, the first step to rehabilitation. The efforts to privatize the companies owned by the Trust Agency will have to be intensified, particularly through more transparent offers as, for example, by increasing marketing and information programs abroad and developing proposals that are aimed at the relevant target groups. Breaking up the old industrial conglomerates into smaller, more comprehensible units will create buying opportunities that really appeal to medium-size companies. Also, the entrepreneurial potential in the state must be put to better use, e.g., through management buy-outs.

Companies under Trust Agency supervision that have not yet been privatized should not be allowed to be kept on hold. Proposals for rehabilitating them must also be formulated. The Trust Agency has already anticipated this need by assuming management responsibility for the companies under its supervision. Companies that can be rehabilitated should be given a chance.

Where rehabilitation is not possible, the basis for the creation of new businesses must be created by breaking up the firm imaginatively. We should not permit the closure of uncompetitive companies to become tantamount to a widespread de-industrialization.

Filling the Void

Quite unavoidably, the rehabilitation of the Trust Agency holdings is going to mean the loss of jobs. New ones will have to be created by setting up new businesses. Saxony has a need for companies in the services sector, which has been under-represented up to now. What is required will be a structural adjustment that will permit competitiveness under the conditions of a market economy. The steps required to replace the jobs that will be lost in the rehabilitation process must be taken as quickly as possible. New plants and businesses must be set up within a time-frame in which the drawbacks of the restructuring process do not become palpable. Investments in Saxony are an investment in the future that is based upon the trust that the people who took control over their fate in 1989 are also capable of mastering the problems of restructuring.

Numerous development programs have been put in place that are designed to encourage competitiveness and the foundation of new companies: financial aid of up to 33 percent of the investment or special write-offs of up to 50 percent over the normal rates, as well as equity capital and guarantees, have created an attractive investment environment.

Saxony always had a highly skilled pool of workers. What is now the Free State of Saxony stands for a long industrial tradition. Without the restrictions of a planned economy, Saxony once built among the finest machinery and automobiles, it had a highly developed textile industry and many rewarding links between industry and universities. After World War I Saxony had the highest productivity per capita in all of Germany. Today we have the opportunity to restore these traditions: over 60 percent of the permanent workforce are certified skilled workers, over 13 percent have completed advanced vocational training, and just under 8 percent

Construction site in front of the Dresden Schloss.

have an advanced secondary school degree. Measures have been introduced to improve this high level of skills even further.

Nearly all areas of Saxony have good traffic connections, but the transportation network needs to be improved. Business and industrial areas have to be tied into the supraregional traffic and communications infrastructure; supply and waste removal have to be upgraded; presently fallow building sites must be prepared and new ones brought on stream. Substantial funds have been provided to meet these needs. We are also attempting to reshape our public sector in a number of ways not chosen in West Germany for a number of historical reasons and because of vested interests that had developed in the last forty years. One important feature is the participation of private enterprises and capital in the upgrading of the public infrastructure. In Saxony we would like to see water supply, sewage and garbage disposal systems and other parts of the infrastructure privately planned, built, financed and operated. This comprehensive renewal and expansion of the infrastructure holds out the opportunity, by installing the latest technology, of creating business areas that will actually be superior to those in western Germany.

Promoting Tourism

Basically, this also holds true for the task of attracting foreign visitors and encouraging tourism, which must be developed according to free market structures. This is one of those areas in the services sector that will be challenged to reach its potential in creating new jobs and training opportunities; the former will be generated both

I must caution against all too great euphoria that sees tourism as a quick, efficacious economic cure-all.

by individually established businesses (hotels, restaurants, health clubs, and the like) as well as in the course of the further privatization of the large, formerly government-run, vacation hotels and restaurants, and in municipal social services .

Of equal importance is the multiplier effect that manifests itself in the higher turnover and a wider assortment of goods and services in each locality. This phenomenon will be closely related to the gradual improvement in the quality of life enjoyed by the people in the towns and cities of Saxony; only as this happens will they want to develop tourism and guarantee an appropriate atmosphere of hospitality.

However, I must caution against all too great euphoria that sees tourism as a quick, efficacious economic cure-all. The outlook for generating direct and indirect revenues at any time soon from tourism presupposes a functional support structure. To be sure, the infrastructure is being built up and improved, though it still leaves much to be desired in terms of quality and quantity. This, as well as an orientation toward *serving* the guest that is only beginning to emerge, reveal that the prerequisites

An apartment house in Leipzig. Much of eastern Germany's housing is in disrepair.

exist only to a limited extent throughout the state of Saxony.

The development of tourism in our economy will rest upon the expansion of the entrepreneurial spirit, particularly among our small and medium-sized businessmen. The privatization of tourist hotels by the Trust Agency through the intermediation of local authorities will encourage private investments to rehabilitate and adapt to prevailing international standards of service. As a transitional solution, leases will have to be structured in such a fashion that setting up a business and investing in it over the life of the lease will be attractive and practicable for the leasee. Our policy is to support particular branches of the economy through public funding by measures that give impetus to encouraging this approach in areas whose scenic beauty will attract tourists for more than a few days.

Given the poor state of buildings and equipment, as well as the need to specialize, the restaurant branch has a good deal of catching up to do. Within the framework of the infrastructural development program, Saxony's Ministry of Economics and Labor is attempting to subsidize the conservation of historic inns from its budget with local governments.

The main railroad station in the Saxon capital of Dresden.

Applications for infrastructural aid, supported by employment creation programs, represent financial aid for building up and improving the infrastructure of the tourist industry in towns and cities. Tourism associations at the local and regional level will coordinate these efforts and lobby for the interests of the industry in decisions relating to zoning and development planning .

Selling tourist attractions in Saxony requires an effective marketing system that will especially focus on making them more accessible for target groups in western Germany. Saxony has begun installing a regional TIBS reservation system, but it can only be completed on a step-by-step basis in coordination with the German postal telecommunications office (Telekom).

Outlook

The economic situation, however, is improving faster than pundits expected. We are about to reach the turning point when more jobs will be created than lost. We believe this point will be reached sometime in spring or summer.

Investing in Saxony, indeed, offers many rewarding prospects. It means investing in the very center of Europe, i.e., access to millions of customers in the EC as well as access to Saxony's "neighbors next door" in the former Soviet bloc. Without the strings of a command economy Saxony had always been among the powerhouses of Europe. Those strings have now been cut. □

Überblick

Sachsen erneuert seine Wirtschaft

Der Prozeß des Wiederaufbaus der sächsischen Wirtschaft ist in vollem Gange. Von den 3000 durch die Treuhandanstalt verwalteten Betrieben sind bis Ende Oktober 1991 insgesamt 1200 privatisiert worden. 73.000 neue Unternehmen wurden gegründet. Dennoch sind noch nicht alle Probleme gelöst. Die Zahl der Kurzarbeiter ist unübersehbar und die Zahl der Arbeitslosen noch immer sehr hoch. Im November 1991 waren 282.000 Arbeitlose gemeldet, was eine Arbeitslosenquote von 10,7 % bedeutet - und das ist noch die niedrigste Arbeitslosenquote in den fünf neuen Bundesländern. Dabei darf jedoch nicht übersehen werden, daß im September 1989 mehr als 50 % aller Beschäftigten (damals 2,6 Millionen Personen) in der Industrie tätig waren. Zwischen Juli und September 1990 betrafen 70 % der Entlassungen Beschäftigte aus der Industrie. Gleichzeitig sank der Anteil der Industrieproduktion von 53,4 % auf 50,8 %.

Dennoch entwickelt sich die wirtschaftliche Lage besser als von den Experten erwartet. Der Wendepunkt wird erreicht sein, wenn mehr neue Arbeitsplätze entstehen, als alte wegfallen. Dieser Punkt könnte im Sommer 1992 erreicht werden.

Investitionen in Sachsen versprechen großen Erfolg. Sie bedeuten Investitionen in der Mitte Europas und erreichen sowohl die Verbraucher in der EG als auch die östlichen Nachbarn, besonders die frühere Sowjetunion. Sachsen war seit jeher eines der industriellen Zentren Europas. Nach dem Fortfall der kommunistischen Systeme wird es dies auch wieder sein. □

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Alabama — offen für neue Unternehmen

Alabama: A State Open For Business

Guy Hunt
Governor
State of Alabama

Located in the center of the large Southeastern U.S. market, the state of Alabama is attracting attention worldwide as a prime location for foreign investment and international business. Companies in twenty-four countries have already taken the first step toward success in the United States by establishing operations in Alabama. Included among the twenty-four countries whose companies have invested in the state is the Federal Republic of Germany, which ties for fifth in terms of total foreign investment. Twenty-one German owned manufacturing companies, including Degussa Corporation-Alabama Group, Knauf Fiberglass, and Huls America, are currently operating within the state's borders, producing such diverse products as aircraft parts, chemicals, fiberglass insulation, and wooden beams and trusses. As of 1990, these German manufacturers had made a composite investment of more than $763 million and employed approximately 2250 Alabamians.

Hospitable Business Environment

The reasons are simple: Alabama is a state with a positive attitude toward new and existing business. Alabama's laws have created an hospitable and profitable business environment for industry, while its abundant supplies of natural resources and its great human energy have supported and contributed to the success of these manufacturing activities. Alabama's lower start-up and operating costs help minimize initial investment risks and increase long-range profit potential. And the

Alabama's lower start-up and operating costs help minimize initial investment risks and increase long-range profit potential.

state has one of the finest transportation systems in the U.S., including five interstate highways, more than 1300 miles of navigable inland waterways, and a deep-water port, which is one of the nation's busiest. Each of these factors, combined with many others, made Alabama third in the nation in terms of new manufacturing operations and plant expansions during 1989.

Key to Alabama's attraction to American as well as foreign business is its central location in the Southeast. The Southeastern United States is currently the fastest-growing region in the country with a population of over 40 million and annual retail sales of $150 billion. One-third of the population of the entire nation is located within a 600-mile radius of Alabama. The state's largest city, Birmingham, is less than 600 miles away from Chicago, Dallas and Houston. New Orleans and St. Louis are less than 400 miles away. Within the borders of the

state, there are over fifty prime locations available for new and expanding companies in six metropolitan areas and approximately 450 communities. Modern, reasonably-priced industrial parks offer sites for manufacturing, research and development, and distribution facilities. Numerous existing buildings are available, and new industrial shell buildings stand ready for quick completion, customized to companies' specifications.

Alabama's large skilled and semi-skilled labor force is another reason why companies are selecting Alabama as a site for manufacturing operations. Managers of new plants in Alabama have found their employees exceptionally productive, sometimes as much as 50 percent more productive than employees at former plant locations. And Alabama is a *right-to-work* state, meaning that an employer or union may not deny an individual the opportunity to work because of failure to join or maintain union membership. Employees can be trained free of charge to industry in Alabama through the State-financed Alabama Industrial Development Training (AIDT) program. AIDT provides a total delivery system for recruiting, screening, and selecting trainees and for designing and implementing training for any new or expanding manufacturer creating jobs. Training is custom-designed in accordance with each company's requirements.

Topping the list of the $140,000,000 worth of products going to Germany from the state were paper and allied products, rubber and plastic products . . .

Center of High Technology

Alabama's Center for Advanced Technology Transfer (ACATT) is part of a larger high-technology sphere that began developing in Alabama as early as 1950, when a team of German rocket scientists, led by the pioneering genius Dr. Wernher von Braun, arrived at the U.S. Army's Ordnance Guided Missile Center in Huntsville from Fort Bliss, Texas. Dr. von Braun had originally come to the United States from Germany in 1945 with his team of Peenemuende rocket specialists, under contract to the U.S. Army for the development of the United States' missile program. Under the direction of Dr. von Braun, the Guided Missile Center in Huntsville evolved into the Army Ballistic Missile Agency and the George C. Marshall Space Flight Center, which was established as a field installation of the National Aeronautics and Space Administration (NASA) in 1960. During this period of time, the Marshall Center developed the Saturn rockets, the largest of which put men on the moon in 1969. The center's other missions included the design of all pressurized modules in the development of the Space Station, the development of the Space Shuttle's three main engines, and the design and deployment of the Hubble Space Telescope, which is currently enabling scientists to study deep space.

The Space Power Institute (SPI), located at Auburn University in Auburn, Alabama, was established in 1985 to investigate and develop technologies associated with space power engineering. SPI assists in advancing technology to practical applications in the scientific, defense, and commercial sectors, with current research efforts concentrating on the U.S. government's Strategic Defense Initiative (SDI) requirements. Currently, thirteen university research teams, eleven of which are located at universities outside of the U.S., are under subcontract to the institute.

A Leader in Medical Research

Not only is Alabama a leader in U.S. aerospace and aircraft activity, but it has also become a front-runner in medical care and research. A national magazine has called the University of Alabama in Birmingham (UAB)'s School of Optometry the best in the world, and the UAB Comprehensive Cancer Center has been ranked number one in quality in the U.S. by the National Institute of Health. And UAB's Center for AIDS Research is one of only seven such federally-funded organizations nationwide. With more than 825 active projects, UAB's annual research and development grants exceed $105 million, ranking it twenty-first in terms of federally-sponsored research. The school's Department of Microbiology is first in the nation in dollars received in research grants, ranking it above such universities as Harvard and the University of California, Los Angeles (UCLA). Located nearby UAB in the city of Birmingham is the world's first Medical Products Forum, which is due to open in January, 1992. This facility will host all types of medical continuing education seminars, conferences, workshops, and conventions, and will offer medical product manufacturers from around the world the opportunity to display their leading-edge medical and healthcare products to the thousands of seminar and conference attendees.

Transportation and Trade

Many of the products developed at these research and development centers around the state are marketed around the country and overseas. The state's interstate highway system allows the products to be transported quickly and easily throughout the United States, as do Alabama's nine commercial and 90 general aviation airports. The state is situated between two of the largest air freight cargo service centers in the United States, Memphis and Atlanta.

Alabama's railroads carry more than 139 million tons of freight to handling facilities in more than 450 Alabama cities and towns each year. Four class one railroad companies provide most of Alabama's main-line service, while local and branch services provided by 17 additional companies are interconnected with the main-line routes. While the railways connect the state with the far reaches of the United States, the Port of Mobile, served by more than 190 shipping lines, connects Alabama with every major port in the world. The Alabama State Docks shipped over 45 million tons from the Port of Mobile in

fiscal 1990, with a capacity to handle much more. The port has also had the distinction of handling more forest products than any other port on the U.S. Gulf of Mexico.

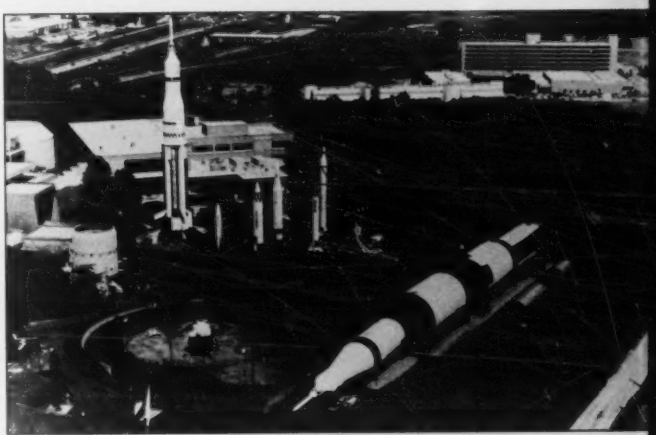
Among Alabama's most frequently exported products are industrial machinery and computer equipment, forest products, chemicals, coal, and transportation equipment. In 1990, most exports from the state went to Canada, Japan, and The Netherlands, while Germany was fifth on the list of overseas destinations for Alabama goods. Topping the list of the $140,000,000 worth of products going to Germany from the state were paper and allied products, rubber and plastic products, and miscellaneous equipment and antiques.

Though a large portion of the products exported from the state are manufactured goods, Alabama has an abundance of natural resources which provide great economic benefit as well. For example, Alabama has the third greatest amount of forest acreage among all U.S. states, from which it produces six percent of the nation's timber supply. Wood species grown in Alabama include Southern Yellow Pine, Oak, Sweetgum, and Tulipwood. Closely related to these on-going forestry activities is agricultural farming. Though less than three percent of the workforce in Alabama is currently involved in the farming sector, the output from this activity contributes more than $1.6 billion to the state's economy each year. Nationally, Alabama ranks second in peanut production, third in broiler (chicken) production, third in pecan nut production, sixth in sweet potato and eighth in cotton production. Seafood products from Alabama's Gulf Coast include brown, white, and pink shrimp, blue crab, oysters, snapper, and flounder. Coal is another billion dollar industry for the state. Alabama has an abundance of *compliance* coal — low in sulphur and high in BTU — as well as large amounts of high-quality metallurgical coal, which is the staple of coal exports from the Port of Mobile.

Climate, Culture and History

But Alabama is not only a state suitable for manufacturing facilities and industrial parks: It is a state that offers a full, varied way of life for those that visit and live within its borders. The 1989 cost of an average home in Birmingham, the state's largest city, was $86,199; moreover, residents can live in better homes in relation to their income in Alabama because of low property taxes and lower than average utility rates. Warm average temperatures and a relatively short winter make camping, fishing, sailing, and golfing popular pastimes during most months of the year. The state is home to the Alabama Symphony Orchestra, the largest professional arts organization in the state, and the Alabama Shakespeare Festival, which is the only year-round professional classical reperatory theatre operating in the Southeastern U.S.

This pioneering spirit is alive and well today throughout Alabama . . . a participant in the global marketplace and as a site for foreign investment.



Alabama is a leader in space technology with its Marshall Space Flight Center, Army Ballistic Missile Agency and the Space Power Institute

Alabamians are interested in sharing facets of their daily lives with other countries as a means of promoting understanding, both culturally and commercially. Nineteen Alabama cities and towns enjoy *sister city* relationships with foreign counterparts. The sister city program is an internationally-endorsed effort which seeks to bring about understanding between countries through exchanges of people, ideas, and cultures. Two of the state's nineteen participating cities have established relationships with German towns: Cullman, Alabama, is a sister city to Frankweiler, the town in southwest Germany from which its founding father, Col. John Gottfried Cullmann, came in 1873. Cullman's German heritage is celebrated each year during its Octoberfest activities, which include German music, dancing, and food. Frankweiler and Cullman delegations currently visit one another every two years.

Ozark, Alabama, has been a sister city to Buckeburg, Germany, since the mid-1970's. This relationship was established largely due to the fact that both cities are home to their respective countries' army aviation training centers. Each city has made two official visits to its counterpart since the establishment of the agreement.

Elberta, a small town of 650 located in the state's Gulf Coast region, is known for its German roots and its continued awareness of its German heritage. In the early 1900's, a large number of German immigrants settled in the American Midwest, many in the Chicago area. At approximately the same time, Mr. John Burton Foley, an American businessman in Chicago who had learned of the rich, fertile land in south Alabama, decided to leave his hectic city life for a more peaceful existence. While preparing to leave, Foley suddenly realized that the site might be ideal for the settlement of many of Chicago's immigrants, a large number of whom were living in crowded city housing. He advertised the opportunity for settlers to come to south Alabama and offered to buy a one-way railroad ticket to what is now

Foley, Alabama, for each volunteer. A large number of German and Hungarian immigrants accepted the offer and settled in Elberta, where most were involved in growing large crops of potatoes in the fertile soil. Many of the descendants of these early settlers still live in Elberta, speaking German and maintaining the old craft and music traditions.

This pioneering spirit is alive and well today throughout Alabama, a state that is realizing its potential as a participant in the global marketplace and as a site for foreign investment. The state's government and business community are forward-thinking and aggressive and are actively seeking to attract foreign-owned business and to encourage trade. □

Überblick

Alabama — offen für neue Unternehmen

Wem fallen bei dem Stichwort "Alabama" nicht sogleich gemütlicher Blues und ausgelassene Feste unter freiem Himmel bei südlicher Wärme ein? Aber Alabama hat viel mehr zu bieten. Nicht von ungefähr haben sich schon vor mehr als hundert Jahren deutsche Siedler hier niedergelassen wodurch sich hier sogar noch deutsche Sprache und Brauchtum finden. Doch die Beziehungen zwischen Deutschland und Alabama sind noch intensiver.

Wernher von Braun hatte entscheidenden Anteil am Aufbau des amerikanischen Weltraumzentrums und heute ist Alabama das Zentrum der Weltraum- und Luftfahrt in den USA. Diese engen Beziehungen finden ihren Ausdruck auch in den umfangreichen Investitionen deutscher Unternehmen in Alabama, die im letzten Jahr an fünfter Stelle lagen. Daneben war die Bundesrepublik Deutschland 1991 der fünftwichtigste Handelspartner Alabamas.

Zwischen Georgia und Mississippi mit ihren aufstrebenden Zentren Atlanta und New Orleans gelegen, zählt Alabama zu den "cotton belt"-Staaten in der Südost-Region der Vereinigten Staaten, die in den letzten Jahren einen enormen Aufwärtstrend erlebt haben. Die hervorragende Infrastruktur und gut ausgebildete Arbeitskräfte, die staatliche Förderung von Unternehmensgründungen durch kräftige steuerliche Entlastungen und die niedrigen Kosten für Firmengründungen sprechen für sich.

In Alabama haben sich vor allem die Maschinenbauindustrie und die Hersteller von Computerteilen und -zubehör niedergelassen. Daneben bilden die chemische Industrie und Holzprodukte das Rückgrat der Wirtschaft. Die groBen Wäldern liefern eine Vielzahl von Edelhölzern. Daneben wird in Alabama eine hochwertige Kohle gefördert. In Verbindung mit einem der wichtigsten Überseehäfen am Golf von Mexiko, Mobile, sind optimale Produktionsbedingungen gewährleistet.

Vor allem aber in der Kombination der wirtschaftlichen Stärke und der glücklichen Lage Alabamas mit einer hohen Lebensqualität und einem großen Freizeitwert liegen die Faszination und Anziehungskraft des Staates begründet - sweet home Alabama! □

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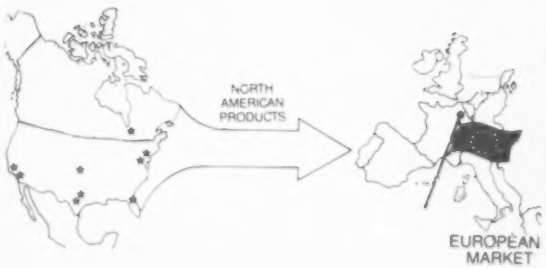

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For more information and the office nearest you, please contact Ms. Leila Manfred at:

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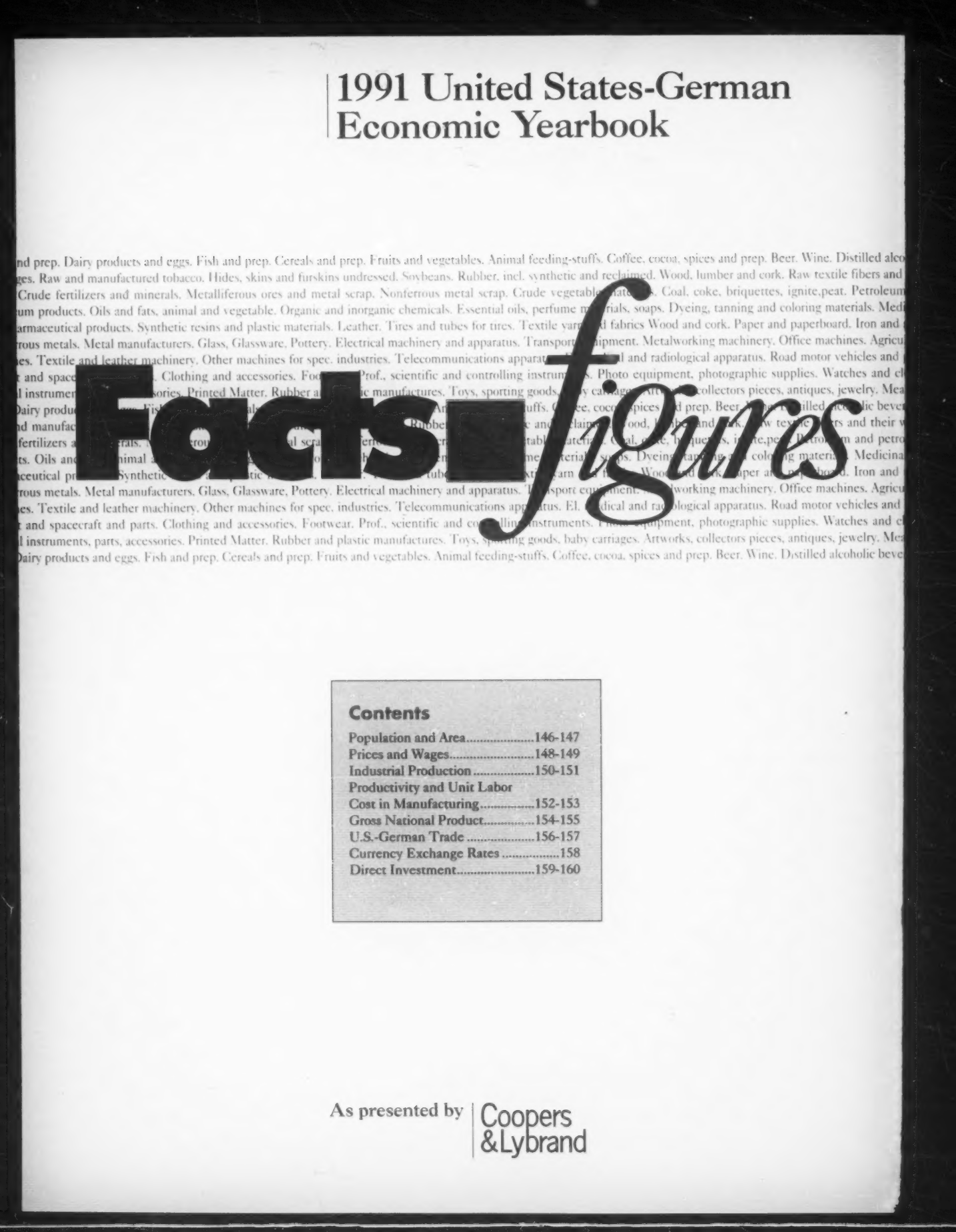

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As presented by | Coopers & Lybrand

Population & Area

USA

DEVELOPMENT OF POPULATION

	Area (in 1000 sq. miles)	Pop (in mil)	Male	Female	Households (in mil)
1960	3,618.7	180.0	88.3	90.9	52.8
1970	3,618.7	204.0	98.9	104.3	63.4
1980	3,618.7	227.2*	110.0	116.5	80.0
1985	3,618.7	238.7	116.2	122.6	86.8
1986	3,618.7	241.1	117.4	123.7	88.8
1987	3,618.7	243.1	118.3	124.8	90.4
1988	3,618.7	248.0	120.1	126.0	91.1
1989	3,618.7	248.2	121.0	127.3	93.0
1990	3,618.7	248.7	121.2	127.5	91.9

Source: U.S. Department of Commerce
**Based on new benchmark levels. Not comparable with previously published data.*

LABOR MARKET

Period	Civilian Labor Force
1960	69,628
1970	82,715
1980	104,719
1985	115,461
1986	117,834
1987	119,865
1988	121,669
1989	123,869
1990	124,787

LABOR MARKET

	Employed	Unemployed	%
1960	65,778	3,852	5.5
1970	78,627	4,088	4.9
1980	97,270	7,448	7.1
1985	107,150	8,312	7.2
1986	109,597	8,237	7.0
1987	112,440	7,425	6.2
1988	114,968	6,701	5.5
1989	117,342	6,528	5.3
1990	117,914	6,874	5.4

Source: U.S. Bureau of Labor Statistics, Employment and Earnings

UNEMPLOYMENT BY DURATION (in %)

Weeks	<5	5-14	15-26	27≤
1980	43.1	32.3	13.8	10.7
1985	42.1	30.2	12.3	15.4
1986	41.9	31.0	12.7	14.4
1987	43.7	29.6	12.7	14.0
1988	46.0	30.0	12.0	12.1
1989	48.6	30.3	11.2	9.9
1990	46.1	32.0	11.8	10.1

Source: U.S. Council of Economic Advisors

GERMANY

Note:
In the interest of consistency and comparability, the map and statistics reflect the former West Germany only.

DEVELOPMENT OF POPULATION

	Area (in 1000 sq. miles)	Pop (in mil)	Male	Female	Households (in mil)
1960	96.0	55.4	26.0	29.4	19.5
1970	96.0	60.7	28.9	31.8	22.0[1]
1980	96.0	61.6	29.4	32.1	24.8
1985	96.0	61.0	29.2	31.8	26.4
1986	96.0	61.1	29.2	31.8	26.7
1987	96.0	61.1	29.3	31.8	26.2
1988	96.0	61.4	29.5	31.9	27.4
1989	96.0	62.1	30.0	32.2	27.8
1990	96.0	62.7	NA	NA	NA

Source: Statistisches bundesamt, Germany
1) As of September

LABOR MARKET

Period	Civilian Labor Force
1960	26,518
1970	26,817
1980	27,948
1985	28,897
1986	29,188
1987	29,386
1988	29,611
1989	29,779
1990	30,322

LABOR MARKET

	Employed	Unemployed	%
1960	26,247	271	1.3
1970	26,668	149	0.7
1980	27,059	889	3.8
1985	26,593	2,304	9.3
1986	26,960	2,228	9.0
1987	27,157	2,229	8.9
1988	27,369	2,242	8.7
1989	27,741	2,038	7.9
1990	28,440	1,882	7.2

Source: Statistisches Bundesamt, Germany; Bundesminister Fur Wirtschaft, Germany

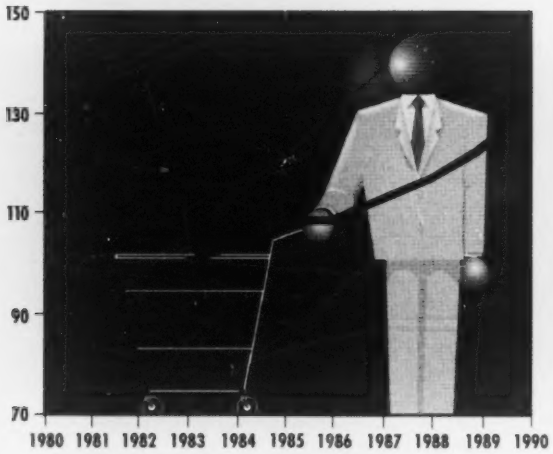
UNEMPLOYMENT BY DURATION (in %)

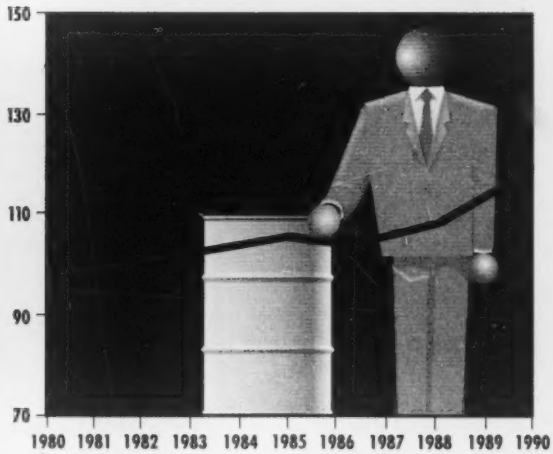
Months	-1	1-3	3-6	6-12	1-2 years	2 and over
1980	21.2	30.4	18.8	16.7	7.8	5.1
1985	12.3	20.2	15.8	20.7	16.9	14.1
1986	12.2	20.0	15.6	20.2	16.3	15.6
1987	12.1	20.3	16.0	19.8	15.8	16.1
1988	11.7	20.1	16.0	19.6	16.1	16.5
1989	14.3	21.4	15.6	17.2	14.7	16.7
1990	14.1	21.1	16.2	18.8	13.8	15.9

Source: Bundesanstalt fur Arbeit

Prices and Wages

USA





CONSUMER PRICE INDEX

(all urban consumers)

(finished goods)

Period		1982-84 =100	Change from previous year %
1980	average	82.9	+13.4
1981	"	91.4	+10.2
1982	"	96.9	+6.0
1983	"	99.8	+3.0
1984	"	103.3	+3.5
1985	"	106.9	+3.5
1986	"	108.6	+1.6
1987	"	112.5	+3.6
1988	"	117.0	+4.0
1989	"	122.6	+4.8
1990	"	130.7	+6.6

Source: U.S. Department of Labor

PRODUCER PRICE INDEX

Period		1982 = 100	Change from previous year %
1980	average	88.0	+ 13.4
1981	"	96.1	+ 9.2
1982	"	100.0	+ 4.1
1983	"	101.6	+ 1.6
1984	"	103.7	+ 2.1
1985	"	104.7	- 1.0
1986	"	103.2	- 1.4
1987	"	105.4	+ 2.1
1988	"	108.0	+ 2.5
1989	"	113.6	+ 5.2
1990	"	119.2	+4.9

Source: U.S. Department of Labor

USA GROSS HOURLY EARNINGS

(all urban consumers)

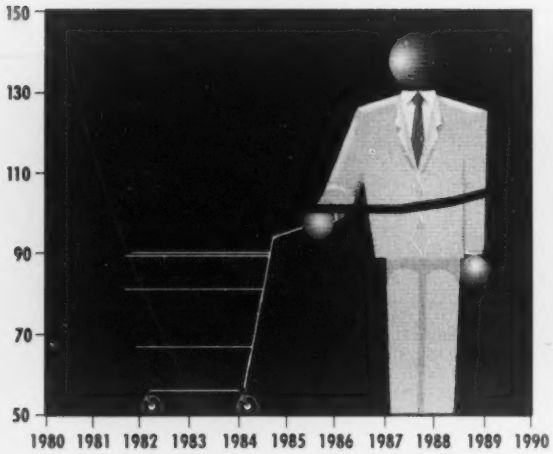
—Average— Manufacturing Industry

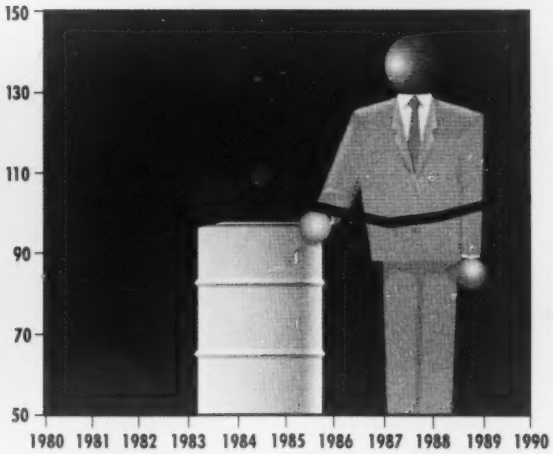
1983	8.83	1987	9.91
1984	9.19	1988	10.19
1985	9.53	1989	10.49
1986	9.73	1990	10.83

Source: U.S. Department of Commerce

Prices and Wages

GERMANY





CONSUMER PRICE INDEX

Period		1985 = 100	Change from previous year %
1980	average	82.8	+5.4
1981	"	88.0	+6.3
1982	"	92.6	+5.3
1983	"	95.7	+3.3
1984	"	98.0	+2.4
1985	"	100.0	+2.0
1986	"	99.9	-0.1
1987	"	100.1	+0.2
1988	"	101.4	+1.3
1989	"	104.2	+2.8
1990	"	107.0	+2.7

Source: Statistisches Bundesamt, Germany

PRODUCER PRICE INDEX

Period		1985 = 100	Change from previous year %
1980	average	81.9	+7.5
1981	"	88.3	+7.8
1982	"	93.5	+5.9
1983	"	94.9	+1.5
1984	"	97.6	+2.8
1985	"	100.0	+2.5
1986	"	97.5	-2.5
1987	"	95.1	-2.5
1988	"	96.3	+1.3
1989	"	99.3	+3.1
1990	"	101.[illegible]	[illegible]

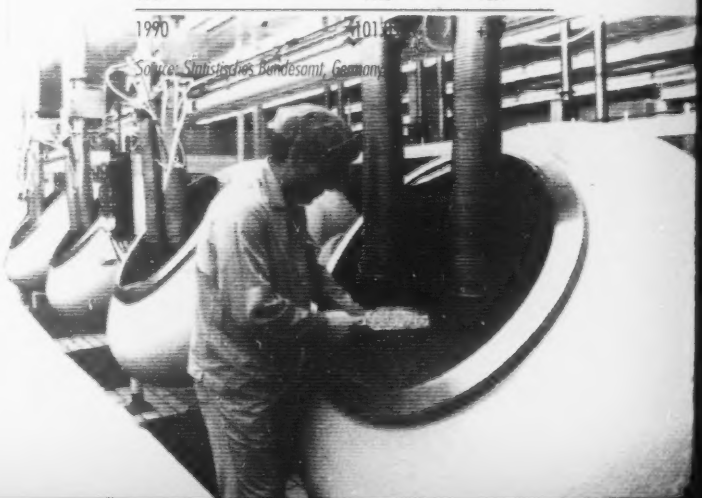
Source: Statistisches Bundesamt, Germany

GERMANY GROSS HOURLY EARNINGS

(all urban consumers)

	—Average—		Manufacturing Industry
1983	15.41	1988	18.43
1984	15.77	1989	19.16
1985	16.39	1990	20.21
1986	16.99	1991 Jan.	20.65
1987	17.68		

Source: Statistisches Bundesamt, Germany



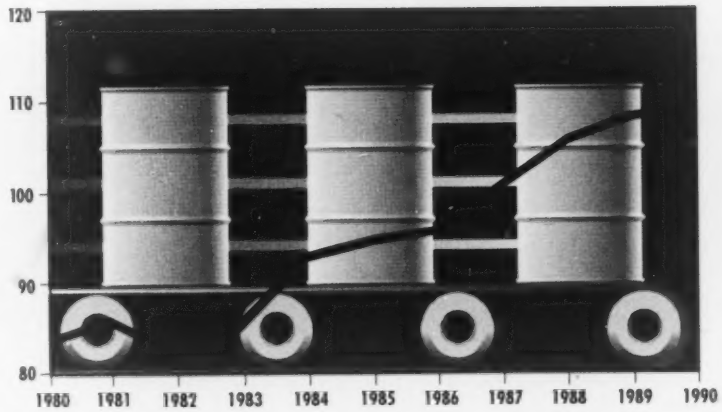
Industrial Production

(Index: 1987=100)

USA

	1987 = 100	Change from previous year %
1980	84.1	-1.9
1981	85.7	1.9
1982	81.9	-4.4
1983	84.9	3.7
1984	92.8	9.3
1985	94.4	1.7
1986	95.3	1.0
1987	100.0	4.9
1988	105.4	5.4
1989	108.1	2.6
1990	109.2	1.0

Source: Federal Reserve Board



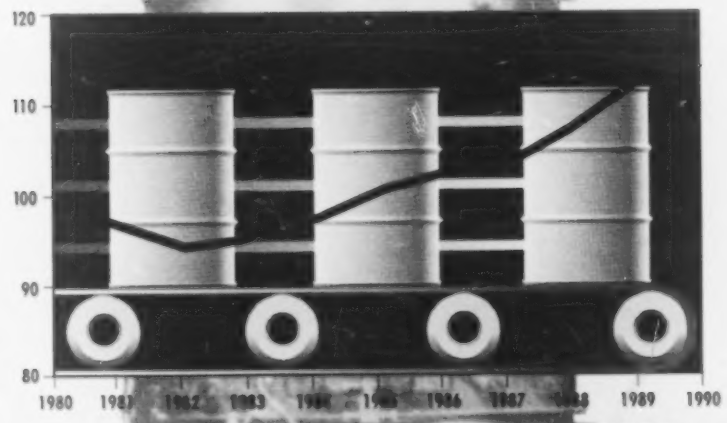
Industrial Production

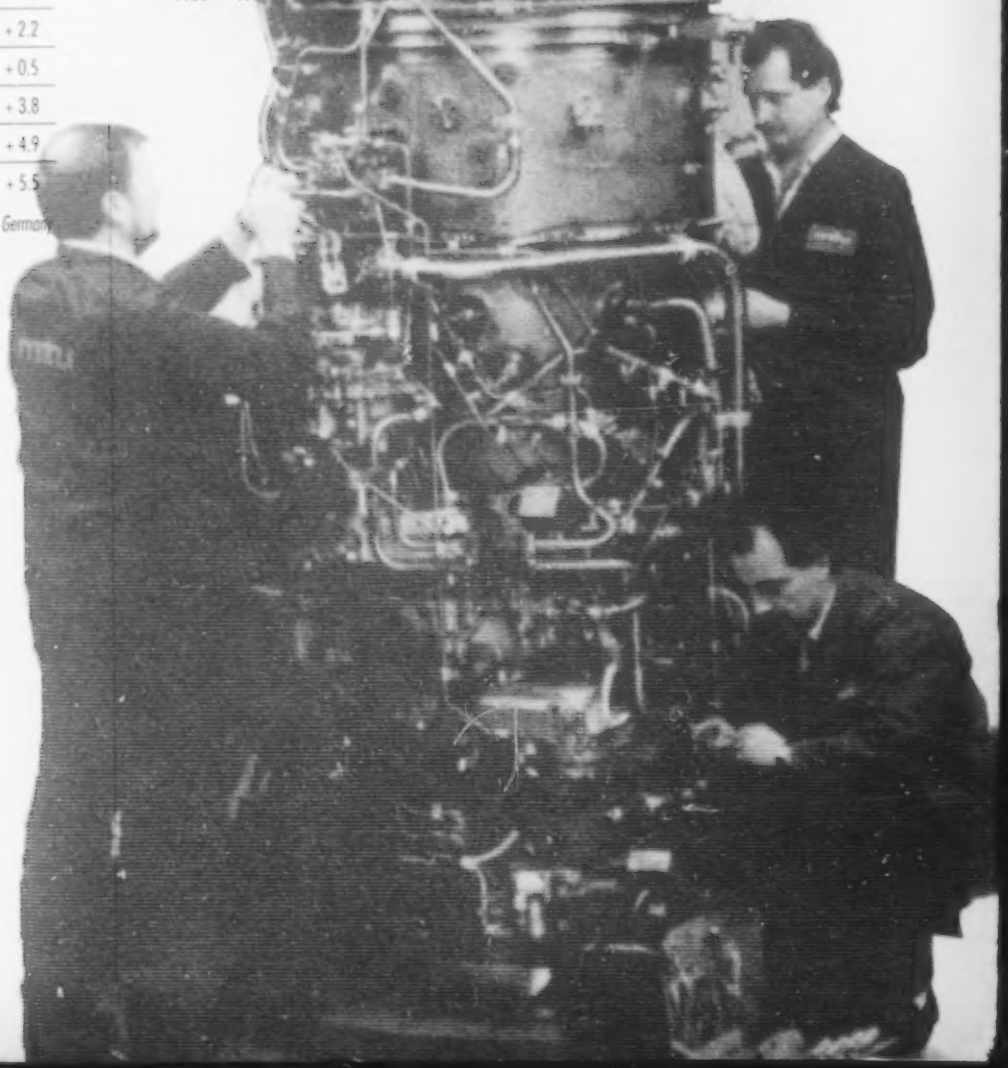
(Index: 1985=100)

GERMANY

	1985 = 100	Change from previous year %
1980	99	+ 0.3
1981	97	-2.5
1982	94	-3.0
1983	95	+ 0.5
1984	97	+ 2.5
1985	100	+ 3.2
1986	102	+ 2.2
1987	103	+ 0.5
1988	107	+ 3.8
1989	112	+ 4.9
1990	118	+ 5.5

Source: Statistisches Bundesamt, Germany

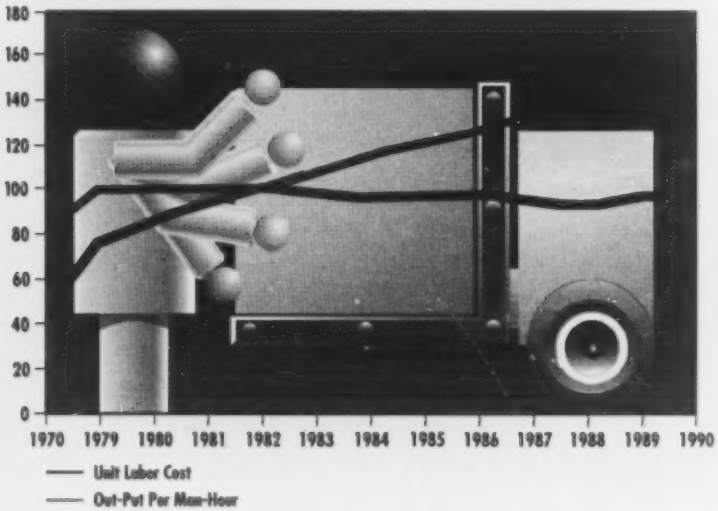




Productivity and Unit Labor Cost in Manufacturing

USA

Index: 1982=100 (on $ basis)



Output and Unit Labor Cost per Hour

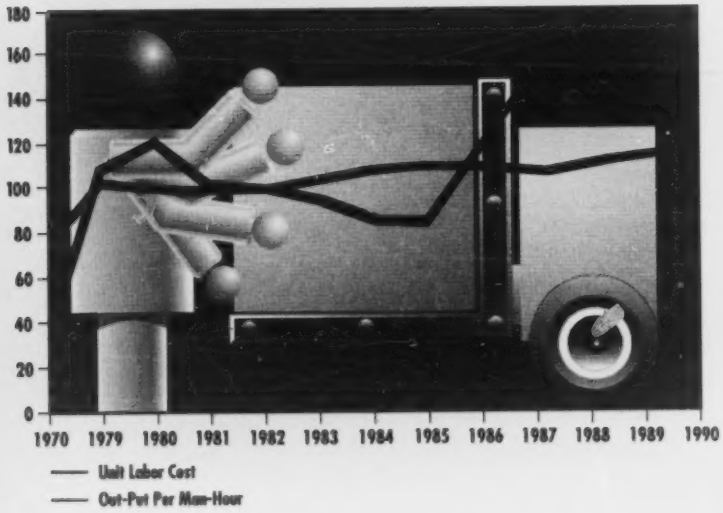
Period	Unit Labor Cost	Output Per Man-Hour	Hourly Compensation
1970	46.3	80.3	35.8
1979	76.9	100.5	74.8
1980	86.7	98.5	83.7
1981	93.8	99.7	91.8
1982	100.0	100.0	100.0
1983	97.7	108.1	102.6
1984	96.3	115.0	105.9
1985	96.8	120.0	111.1
1986	96.8	125.4	116.2
1987	94.0	132.8	118.9
1988	93.0	140.3	122.9
1989	95.8	141.4	127.7
1990	96.5	144.2	131.8

Source: U.S. Department of Labor

Productivity and Unit Labor Cost in Manufacturing

GERMANY

Index: 1982=100 (on DM basis)



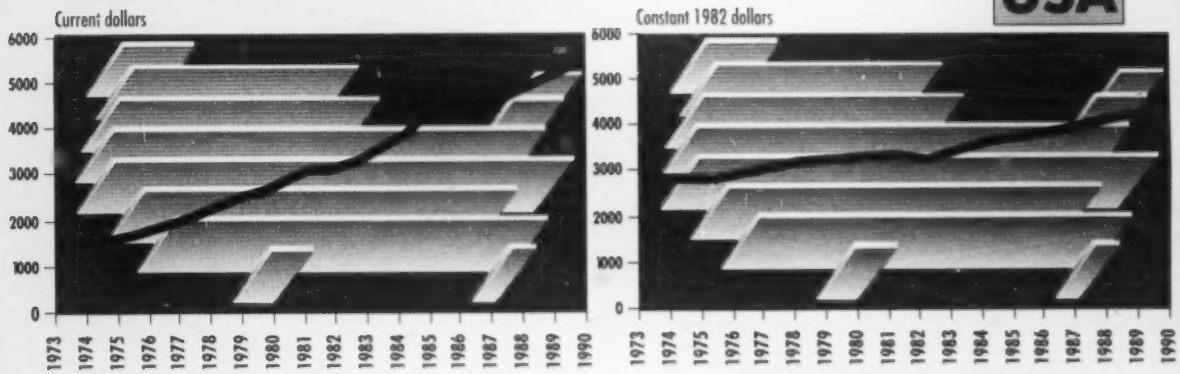
Output and Unit Labor Cost per Hour

Period	Unit Labor Cost	Output Per Man-Hour	Hourly Compensation
1970	34.2	75.4	22.9
1979	108.9	102.8	109.3
1980	121.2	99.8	119.3
1981	101.7	100.6	102.2
1982	100.0	100.0	100.0
1983	94.8	105.0	99.9
1984	86.2	108.5	93.9
1985	85.0	110.8	96.0
1986	119.5	110.4	135.7
1987	153.7	108.0	171.6
1988	157.8	111.6	182.5
1989	147.7	115.2	178.1
1990	175.8	117.8	219.3

Source: U.S. Department of Labor

Gross National Product (in bil. $)

USA



GNP BY TYPE OF EXPENDITURE (current prices)

Period	Gross National Product	% chg from yr. earlier	Personal Consumption	Government Consumption	Gross Private Domestic Investment	Net Exports of Goods & Services
1973	1,359.3	12.1	837.2	266.5	238.8	16.8
1974	1,472.8	8.3	916.5	299.1	240.8	16.3
1975	1,598.4	8.5	1,012.8	335.0	219.6	31.1
1976	1,782.8	11.5	1,129.3	355.9	277.7	18.8
1977	1,990.5	11.7	1,257.3	387.3	344.1	1.9
1978	2,249.7	13.0	1,403.5	425.2	416.8	4.1
1979	2,508.2	11.5	1,566.8	467.8	454.8	18.8
1980	2,732.0	8.9	1,732.6	530.3	437.0	32.1
1981	3,052.6	11.7	1,915.1	588.1	515.5	33.9
1982	3,166.0	3.7	2,050.1	641.7	447.3	26.3
1983	3,405.7	7.6	2,234.5	675.0	502.3	-6.1
1984	3,772.2	10.7	2,430.5	735.9	664.8	-58.9
1985	4,414.9	17.0	2,629.0	820.8	643.1	-78.0
1986	4,240.3	-4.0	2,807.5	871.2	665.9	-104.4
1987	4,526.7	7.0	3,012.1	924.7	712.9	-123.0
1988	4,873.7	7.8	3,238.2	962.5	747.1	-74.1
1989	5,200.8	5.9	3,450.1	1,025.6	771.2	-46.1
1990	5,527.3	6.3	3,724.9	1,132.9	698.3	-28.8

Source: U.S. Department of Commerce

GNP BY TYPE OF EXPENDITURE (constant 1982 prices)

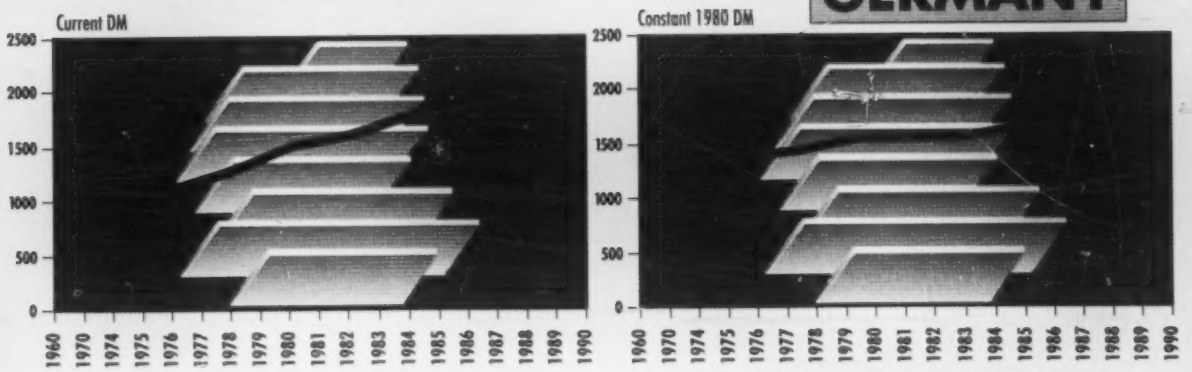
Period	Gross National Product	% chg from yr. earlier	Personal Consumption	Government Consumption	Gross private domestic investment: Nonresidential Fixed	Gross private domestic investment: Residential Fixed	Gross private domestic investment: Change in Business Inventories	Net Exports of Goods & Services
1973	2,774.1	5.2	1,689.6	565.3	317.3	163.4	40.0	-31.5
1974	2,729.3	-.5	1,674.0	573.2	317.8	130.2	33.3	0.8
1975	2,695.0	-1.3	1,711.9	580.9	281.2	114.9	-12.8	18.9
1976	2,826.7	4.9	1,803.9	580.3	290.9	140.8	22.1	-11.0
1977	2,958.6	4.7	1,883.8	589.1	324.0	168.1	29.1	-35.5
1978	3,115.2	5.3	1,961.0	604.4	362.1	178.0	36.8	-26.8
1979	3,192.4	2.5	2,004.4	609.1	389.4	170.8	15.0	3.6
1980	3,187.1	-.2	2,000.4	620.5	379.2	137.0	-6.9	57.0
1981	3,248.8	1.9	2,024.2	629.7	395.2	126.5	23.9	49.4
1982	3,166.0	-2.5	2,050.7	641.7	366.7	105.1	-24.5	26.3
1983	3,279.1	3.6	2,146.0	649.0	361.2	149.3	-6.4	-19.9
1984	3,501.4	6.8	2,249.3	677.7	425.2	170.9	62.3	-84.0
1985	3,618.7	3.4	2,354.8	731.2	453.5	174.4	7.4	-104.3
1986	3,721.7	2.8	2,455.2	760.5	433.1	195.0	13.8	-137.5
1987	3,847.0	3.4	2,521.0	780.2	445.1	195.2	18.1	-128.9
1988	4,016.9	4.6	2,606.5	780.5	487.2	194.9	23.6	-75.9
1989	4,117.7	0.9	2,656.8	798.1	506.1	187.0	23.8	-54.1
1990	4,153.4	0.9	2,673.6	832.3	519.4	163.3	-26.4	-8.8

Source: U.S. Department of Commerce

Gross Private Domestic Investment

Gross National Product (in mil. DM)

GERMANY



GNP BY TYPE OF EXPENDITURE (current prices)

Period	Gross National Product	% chg from yr. earlier	Personal Consumption	Government Consumption	Gross Private Domestic Investment	Net Exports of Goods & Services
1960	303.0	11.7	171.8	40.5	73.6	60.7
1970	675.7	13.0	368.9	106.5	172.1	152.9
1974	985.6	7.3	533.7	190.2	212.7	279.0
1975	1,029.4	4.4	585.3	210.0	209.4	271.2
1976	1,126.2	9.4	632.5	221.7	225.7	309.0
1977	1,199.2	6.5	683.2	235.0	242.4	325.8
1978	1,291.6	7.7	728.9	252.9	266.0	344.7
1979	1,396.6	8.1	785.0	273.3	303.4	377.4
1980	1,485.2	6.3	840.8	297.8	335.8	422.3
1981	1,545.1	4.0	887.9	318.2	335.2	482.1
1982	1,597.1	3.4	918.1	326.2	326.9	517.5
1983	1,680.4	5.2	964.2	336.2	343.8	524.8
1984	1,769.9	5.3	1,003.6	350.2	354.6	590.8
1985	1,844.3	4.2	1,038.3	365.7	360.8	647.5
1986	1,945.2	5.5	1,068.6	382.7	377.4	638.2
1987	2,015.6	3.6	1,110.3	397.5	390.0	639.3
1988	2,123.2	5.3	1,154.3	412.7	416.0	687.9
1989	2,261.3	6.5	1,211.3	419.0	458.4	787.1
1990	2,447.7	8.2	1,296.3	447.1	515.3	868.4

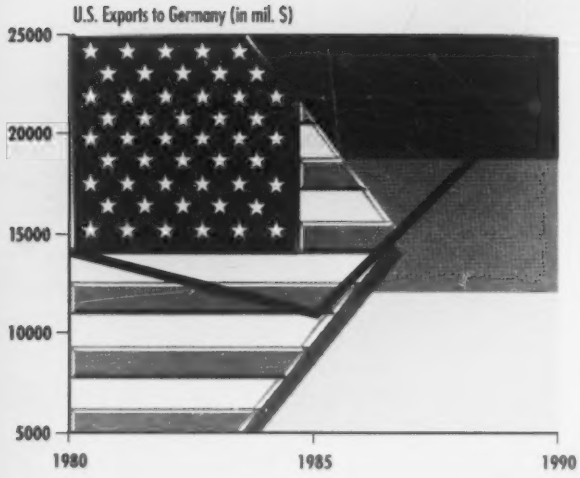
Source: Statistisches Bundesamt, Germany

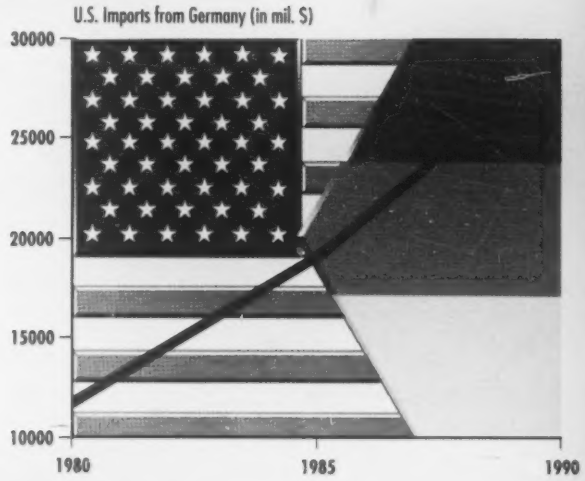
GNP BY TYPE OF EXPENDITURE (constant 1980 prices)

Period	Gross National Product	% chg from yr. earlier	Personal Consumption	Government Consumption	Gross Private Domestic Investment	Net Exports of Goods & Services
1960	731.7	—	370.6	137.5	189.9	120.9
1970	1,134.0	5.0	606.8	211.9	291.9	248.4
1974	1,276.5	0.2	691.5	253.4	286.4	348.0
1975	1,258.0	-1.4	713.9	262.8	271.3	324.6
1976	1,328.2	5.6	740.4	266.8	281.0	356.7
1977	1,363.4	2.7	771.8	270.4	291.1	368.5
1978	1,407.9	3.3	801.5	280.8	304.7	383.7
1979	1,463.6	4.0	830.4	290.3	326.7	401.0
1980	1,485.2	1.5	840.8	297.8	335.8	422.3
1981	1,485.3	0.0	836.4	303.3	319.7	456.7
1982	1,471.0	0.1	825.2	300.7	302.9	471.5
1983	1,498.9	1.9	839.6	301.4	312.4	469.0
1984	1,548.1	3.3	852.3	308.8	314.9	511.1
1985	1,578.1	1.9	864.0	315.3	315.1	545.7
1986	1,614.7	2.3	893.4	323.4	325.4	545.9
1987	1,639.8	1.6	922.6	328.4	332.4	551.1
1988	1,700.5	3.7	947.5	335.9	349.4	582.3
1989	1,766.0	3.9	963.9	332.9	374.3	649.2
1990	1,847.6	4.6	1,005.9	342.5	404.9	711.1

Source: Statistisches Bundesamt, Germany

USA GERMANY





MAJOR ITEMS OF U.S. - GERMAN TRADE

U.S. Exports to Germany				U.S. Imports from Germany		
1980	1985	1990		1980	1985	1990
1,334.9	**541.9**	**695.0**	**FOOD AND LIVE ANIMALS**	**182.6**	**275.0**	**342.1**
1.8	0.7	6.5	Live animals	0.6	4.6	0.4
26.0	4.8	7.9	Meat and prep.	0.6	0.8	0.2
1.3	1.5	3.1	Dairy products and eggs	14.7	14.9	10.8
22.4	8.1	45.8	Fish and prep.	1.6	1.5	2.8
361.2	105.8	68.2	Cereals and prep.	7.7	14.8	26.2
278.7	164.0	326.8	Fruits and vegetables	36.5	67.4	88.4
5.9	1.5	8.1	Sugar and prep., honey	3.7	37.7	37.4
623.6	244.1	216.4	Animal feedingstuffs	19.0	21.0	38.9
1.0	1.0	2.4	Coffee, cocoa, spices and prep.	63.7	97.6	114.9
12.3	10.4	9.8	Misc. edible products and prep.	34.5	11.7	22.1
187.0	**126.2**	**285.5**	**BEVERAGES AND TOBACCO**	**146.3**	**207.2**	**199.4**
12.6	9.6	25.4	Beverages, alcoholic and non-alcoholic	144.9	201.3	195.1
174.4	116.6	260.1	Tobacco, raw and manufactured	1.4	5.9	4.3
2,457.5	**1,296.4**	**1,683.6**	**CRUDE MATERIALS, INEDIBLE, EXC. FUEL**	**170.9**	**101.6**	**128.1**
126.5	48.3	6.8	Hides, skins and furskins undressed	1.1	0.8	0.4
1,144.3	462.9	414.8	Soybeans and other oil seeds	0.1	0.1	0.0
77.9	46.0	121.0	Rubber, incl. synthetic and reclaimed	3.7	20.1	16.5
205.4	86.5	156.2	Wood, lumber and cork	0.7	1.3	2.2
240.1	251.0	434.1	Pulp and waste paper	0.0	0.7	6.7
87.1	85.7	135.7	Raw textile fibers and their waste	14.9	22.2	34.5
190.9	98.7	110.8	Crude fertilizers and minerals	3.1	4.2	6.3
349.7	176.6	223.4	Metalliferous ores and metal scrap	130.3	27.2	34.3
35.6	40.8	80.8	Crude animal and vegetable materials	17.0	25.0	27.2
303.3	**202.0**	**228.2**	**MINERAL FUELS AND LUBRICANTS**	**20.2**	**34.7**	**15.7**
132.7	45.2	43.1	Coal, coke, briquettes, lignite, peat	–	–	2.6
170.6	156.8	185.1	Petroleum products and related materials	20.2	34.7	13.1

Source: Statistisches Bundesamt, Germany

Continued

MAJOR ITEMS OF U.S. - GERMAN TRADE

U.S. Exports to Germany				U.S. Imports from Germany		
1980	1985	1990		1980	1985	1990
51.2	42.7	38.5	ANIMAL AND VEGETABLE OILS , FATS AND WAXES	1.3	2.6	5.6
39.6	24.6	6.1	Animal oils and fats	0.5	0.4	2.1
3.9	11.0	29.5	Fixed vegetable oils and fats	0.6	0.6	0.0
7.7	7.1	2.9	Animal and vegetable oils ,fats, and waxes	0.2	1.6	3.5
1,301.5	1,377.4	2,484.3	CHEMICALS	1,096.1	1,546.8	3,167.3
268.7	268.0	653.4	Organic chemicals	381.3	517.0	934.7
429.7	353.0	259.5	Inorganic chemicals	163.5	193.7	585.1
32.7	29.4	73.8	Essential oils, perfume materials, soaps, cleaning prep	22.6	55.4	99.8
37.4	36.0	94.5	Dyeing, tanning and coloring materials	108.7	184.7	362.9
127.7	171.0	349.5	Medicinal and pharmaecutical products	101.8	152.8	344.4
24.7	28.5	32.9	Textiles manufactured	8.2	9.3	14.1
212.4	275.9	589.7	Plastics, in primary and non-primary form	166.7	258.7	444.7
168.8	215.6	431.0	Chemical materials and prod.	143.3	175.2	381.6
1,295.9	699.4	1,640.1	MANUFACTURED GOODS BY CHIEF MATERIAL	1,506.2	2,468.6	3,331.6
27.8	12.2	45.6	Leather and dressed furs and skins	18.8	24.7	33.0
55.1	46.6	131.9	Rubber manufacturers	109.1	112.2	191.1
151.5	110.3	306.3	Textile yarn, fabrics and paper made articles	96.2	228.7	295.3
82.1	44.0	149.4	Wood and cork, excl. furniture	6.7	23.2	35.1
207.9	55.4	198.7	Paper, paperboard and articles of pulp	24.5	169.7	264.5
39.3	30.5	69.7	Iron and steel	544.1	947.9	943.6
414.6	155.4	279.6	Nonferrous metals	276.7	296.3	440.3
202.7	148.5	305.7	Metal manufactures	208.3	364.0	662.2
114.9	96.5	153.2	Non-metallic minerals, glassware and pottery	227.8	301.9	467.5
4,511.8	4,781.7	9,674.8	MACHINERY AND TRANSPORT EQUIPMENT:	7,600.3	12,255.7	16,553.3
313.4	380.6	1,020.1	Power generating machinery and equipment	525.1	730.9	1,879.2
343.3	261.2	516.6	Machinery spec. for particular industries	1,032.1	1,575.1	2,896.3
72.7	56.6	164.9	Metalworking machinery	315.7	352.3	649.5
497.6	485.4	911.1	General industrial machinery, equipment and parts	660.7	1,039.4	2,037.4
1,257.8	1,563.8	3,005.3	Office machines and equipment	227.7	465.4	715.6
188.7	152.8	432.9	Telecommunications and sound equipment	87.5	122.3	231.1
987.4	1,006.7	1,710.6	Electrical machines and apparatus	563.2	837.1	1,929.2
154.7	119.1	883.2	Road vehicles	4,118.4	6,991.0	7,506.4
696.2	755.5	1,030.1	Other transport equipment (incl. aircraft)	69.9	142.2	637.8
1,368.2	1,177.5	2,832.0	MISCELLANEOUS MANUFACTURED ARTICLES:	944.2	1,865.3	2,863.8
4.9	3.1	21.2	Sanitary plumbing, heating, and lighting fixtures	10.2	15.4	39.5
17.0	15.6	44.3	Furniture and parts thereof	48.3	136.3	192.3
3.6	1.3	7.2	Travel goods, hand bags and familiar containers	5.4	10.5	19.6
101.5	34.5	99.8	Articles of apparel and clothing accessories	23.0	109.7	154.2
5.8	2.8	21.3	Footwear	11.3	18.6	30.6
531.3	591.5	1,1157.3	Professional, scientific and controlling instruments	380.1	728.7	1,084.5
289.2	209.4	456.5	Photo equipment, optical goods, watches and clocks	205.2	327.5	318.3
414.9	319.3	1,024.4	Miscellaneous manufactured articles	260.7	518.6	1,024.8
1,344.8	741.1	3,347.3	COMMODITIES AND TRANSACTIONS NOT CLASSIFIED	153.5	284.5	2,400.4
14,156.1	10,986.3	22,909.3	TOTAL	11,821.6	19,042.0	29,007.3

Source: U.S. Councel of Economic Advisors: Statistisches Bundesamt, Germany

CURRENCY EXCHANGE RATES

Average Exchange Rates (value of $1.00 in DM)

ANNUAL AVERAGE

1977	DM 2.32
1978	2.01
1979	1.83
1980	1.82
1981	2.25
1982	2.43
1983	2.56
1984	2.85
1985	2.94
1986	2.17
1987	1.80
1988	1.76
1989	1.88
1990	1.62

Source: Deutsche Bundesbank

MONTHLY AVERAGE

1989		1990		1991	
Jan	1.8304	Jan	1.6918	Jan	1.5100
Feb	1.8521	Feb	1.6760	Feb	1.4799
March	1.8650	March	1.7045	March	1.6022
April	1.8704	April	1.6882	April	1.7031
May	1.9503	May	1.6617	May	1.7153
June	1.9809	June	1.6840	June	1.7843
July	1.8941	July	1.6399	July	1.7887
Aug	1.9260	Aug	1.5707	Aug	1.7452
Sept	1.9526	Sept	1.5697	Sept	1.6981
Oct	1.8665	Oct	1.5233	Oct	1.6915
Nov	1.8305	Nov	1.4870	Nov	1.6250
Dec	1.7414	Dec	1.4920	Dec	NA

Source: Deutsche Bundesbank

RATIO OF SAVINGS TO DISPOSABLE PERSONAL INCOME
(percent)

USA		Germany	
1981	7.5	1981	14.8
1982	6.8	1982	13.8
1983	5.4	1983	12.2
1984	6.3	1984	12.8
1985	5.1	1985	12.7
1986	4.0	1986	13 5
1987	3.2	1987	13.6
1988	4.2	1988	13.9
1989	4.6	1989	13.5
1990	4.6	1990	14.8

Source: U.S. Department of Commerce

Source: Deutsche Bundesbank

USA

U.S. DIRECT INVESTMENT ABROAD

Cumulative

(in mil. $)

By Country	1980	1984	1985	1986	1987	1988	1989	1990
United Kingdom	28,460	28,635	33,963	35,692	44,512	49,274	59,827	64,983
Japan	6,225	7,920	9,095	11,332	15,684	17,927	18,488	20,994
Germany	15,415	14,794	16,746	20,846	24,388	21,742	24,550	27,715
Canada	45,119	46,830	46,435	49,994	57,783	62,610	65,548	68,431
Italy	5,397	4,592	5,644	6,935	5,425	9,540	10,294	12,971
France	9,347	6,224	7,835	8,857	11,868	13,150	14,069	17,134
Switzerland	11,280	14,865	16,230	17,842	19,655	18,357	19,209	23,733

Source: U.S. Department of Commerce

FOREIGN DIRECT INVESTMENT IN THE U.S.A.

Cumulative

(in mil. $)

By Country	1980	1984	1985	1986	1987	1988	1989	1990
United Kingdom	14,105	38,387	43,766	55,935	79,669	101,909	105,511	108,055
Germany	7,596	12,330	14,417	17,250	20,315	23,845	29,015	27,770
Japan	4,723	16,044	19,116	26,824	35,151	53,354	67,319	83,498
Canada	12,162	15,286	16,678	20,318	24,013	27,361	28,687	27,733

Source: U.S. Department of Commerce

Annual

GERMAN DIRECT INVESTMENT ABROAD (in mil. DM–annual rates)

By country	1980	1984	1985	1986	1987	1988	1989	1990
United States	3,380	3,258	7,665	8,003	7,473	8,493	4,412	3,604
Belgium/Luxemburg	1,028	475	562	290	127	935	1,977	4,368
France	454	494	494	486	758	898	1,729	1,860
Brazil	363	130	-69	-42	238	98	174	225
Switzerland	543	212	39	473	144	784	-205	1,982
Canada	422	208	36	413	212	411	893	1,296
United Kingdom	171	1,091	2,616	985	1,144	1,508	4,531	5,522
Spain	228	533	52	1,223	299	773	1,514	1,577
Netherlands	255	580	-34	1,745	116	1,021	1,657	2,361
Italy	213	208	1,222	1,151	260	1,037	549	965

By industry	1980	1984	1985	1986	1987	1988	1989	1990
Chemicals, medical, pharmac. products	751	4,13	925	4,149	4,288	1,596	2,367	3,076
Finance	968	1,322	2,815	1,814	725	1,524	4,087	4,130
Electrical engineering	605	758	876	1,899	528	2,072	2,264	3,788
Motorvehicles	898	1,183	1,341	2,199	540	1,021	366	?,786
Mechanical engineering	808	416	371	402	565	973	1,062	1,629
Iron & Steel	224	260	67	213	499	223	298	383
Petroleum	302	425	44	611	447	440	148	124
Insurance	234	277	2,052	740	1,411	2,196	2,124	4.795
Real estate	151	268	42	-68	32	32	30	62

Source: Deutsche Bundesbank, Germany

Annual

FOREIGN DIRECT INVESTMENT IN GERMANY (in mil. DM–annual rates)

By country	1980	1984	1985	1986	1987	1988	1989	1990
United States	172	-132	572	-412	-387	-3,253	401	674
Switzerland	88	286	537	750	474	484	216	-1,509
United Kingdom	908	1,591	619	518	131	494	711	-306
Netherlands	574	86	773	898	217	908	-85	619
France	175	359	93	356	156	626	3,267	502
Belgium/Luxemburg	36	-25	-18	-178	-32	63	204	-1,516
Japan	155	352	588	246	454	547	1,209	898
Sweden	105	2	8	16	57	383	227	953
Italy	32	435	161	84	-242	187	876	741
Austria	30	168	15	85	-136	52	327	101

By industry	1980	1984	1985	1986	1987	1988	1989	1990
Holding companies	15	446	1,380	2,565	739	3,560	5,548	3,529
Petroleum	298	377	49	300	*	-2,272	-399	*
Finance	603	1,407	1,347	339	576	407	1,350	1,341
Chemicals	951	82	-296	-848	-164	344	-604	-2,287
Electrical engineering	31	39	189	48	-414	-52	97	417
Mechanical engineering	214	338	60	-12	-279	-278	-401	44
Motor vehicles	26	271	139	243	-643	-83	-3	13
Food	-222	84	99	-78	507	-243	-57	-112
Nonferrous metals	80	80	61	-39	*	-5	-33	11
Iron & Steel	-29	-126	-39	*	*	4	4	-39

Source: Deutsche Bundesbank, Germany
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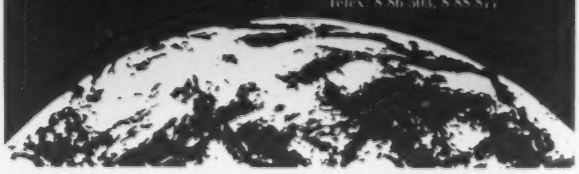

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HM

THYSSEN

OOCL

ZEISS

PHILIPP HOLZMANN
Aktiengesellschaft

Boehringer Ingelheim

LTU
INTERNATIONAL AIRWAYS

hüls

Hermes
Kreditversicherungs-AG

NYNEX

KEMPINSKI

INA

Hapag-Lloyd

Telekom

AMK Berlin

A unique place for exhibitions and congresses.

Dates 1992 (Excerpt)**

17–26.01
International Green Week Berlin 1992
Exhibition for the Food Industry, Agriculture and Horticulture

15–19.02
bautec '92, German Building Trade Fair Berlin

07–12.03
ITB Berlin 1992, International Tourism Exchange

22–24.03
ModaBerlin, The European Fashion Fair*

24–29.04
4th World Congress on Bio-Materials*

09–17.05
iba '92 – World Bakery Market
15th International Bakery Trade Fair Berlin 1992

02–04.06
ShowTech '92, International Trade Fair and Congress
Entertainment Technology, Stage Engineering,
Equipment, Organization

10–13.06
Import Fair Berlin 1992, "Partners for Progress"
10–14.06
Sales Exhibition Berlin, "Partners for Progress"

15–20.06
3rd World Congress for Foodborne Infections and Intoxications*

15–21.06
ILA '92 – Berlin-Brandenburg
International Aerospace Exhibition

09–11.08
ModaBerlin, The European Fashion Fair*

21–25.09
FDI Fédération Dentaire Internationale
80th Annual General Meeting of the FDI*

23–26.09
International Dental Exhibition*

23–26.09
InduTech '92 Berlin, Machines – Tools – Technologies

10–18.10
AAA '92, Motor Show Berlin

20–23.10
MICRO SYSTEM TECHNOLOGIES 1992
3rd International Conference and Exhibition on Micro Electro, Opto, Mechanical Systems and Components

04–06.11
belektro '92 Berlin, Specialist Electrical Engineering Fair

14–22.11
INTERNATIONAL BOAT SHOW BERLIN

* Enquires will be passed on to the organizers.
Subject to alteration. Situation: 11/91.

** Full programme details and additional information are available from your local representatives or from AMK Berlin.

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PROFILES

AEG

AEG Aktiengesellschaft is a worldwide operating company within the integrated Daimler-Benz technology Group. In the course of its over one-hundred year history, AEG has developed from being a manufacturer of electric light bulbs to a broadly diversified supplier of modern technology.

Today AEG's activities are divided into five business units: Automation, Rail Systems, Electrotechnical Systems and Components, Domestic Appliances and Microelectronics.

AEG's *Automation* business unit rests on three pillars: products and standard systems, system and software technology and application-oriented solutions tailored to specific industries. Each of these three pillars has its own access to the market, but none of them functions in isolation. They have been structured to complement one another. The first two pillars—products and systems—contribute to the construction of installations, and the installations business provides key insights for the development and sale of products.

Building on a century of expertise in the *Rail Systems* business, AEG offers state-of-the-art technology to maximize efficiency in all sectors of rail-based passenger and freight transport. AEG is meeting the fundamental changes of the market and the significant growth of the construction of integrated systems by further emphasizing the systems-oriented approach to the design of rail cars and equipment—both in its own activities and in cooperation with qualified partners.

The *Electrotechnical Systems and Components* business unit—the traditional mainstay of the AEG electrical division—offers a comprehensive range of products and components for high-, medium- and low-voltage applications, meters and lighting systems, transformers and cables, as well as power supply systems, parts manufacturing for electrical machines and electrophotography. In addition to direct market sales, a large share of our business consists in supplying other Group affiliates with components for systems and plant facilities.

To ensure that AEG *Domestic Appliances* stay in step with changing standards and requirements in the future, AEG's engineers keep close watch on consumer needs and interests as an integral part of their product development activities. Not only is ease of operation at the forefront of thinking, but also the ecological use of energy and natural resources.

As one of the vitally important key technologies for present and future, *Microelectronics* plays a prominent role in the integrated Daimler-Benz technology Group. By guaranteeing long-term access to modern, market-oriented modules, subassemblies, components and subsystems, this business unit provides the entire Group with the tools it needs to maintain and enhance its competitive edge.

With around 77,000 employees worldwide, AEG's annual sales in 1990 amounted to DM 13.1 billion. At present, AEG has subsidiaries and affiliate companies, representative offices and foreign agencies in 140 countries around the world. □

AMK Berlin

AMK BERLIN Ausstellungs-Messe-Kongress GmbH is a service company based in Berlin. It organises and stages national and international trade fairs, exhibitions and congresses, as well as sporting events, popular entertainment and cultural events. These are of particular significance for the city's tourism and its infrastructure, providing Berlin with a considerable influx of additional purchasing power.

The activities of AMK Berlin help to promote contacts in business and science and to focus international attention on the city. Trade fairs and exhibitions are an important aspect of Berlin's role as a centre for development aid. Sporting events and popular entertainment add to the range of leisure activities in the city.

Structure and Organisation

AMK Berlin operates the following facilities on behalf of the Land Berlin:

- Exhibition Grounds and Funkturm (Radio Tower)
- International Congress Center Berlin (ICC Berlin)
- Deutschlandhalle auditorium
- Eissporthalle ice rink and auditorium
- Film Fair Center

AMK Berlin's three Central Divisions have company-wide responsibility for Finance, Personnel and Engineering. Three Corporate Divisions cooperate with outside organisations, business associations, scientific and technical facilities, international organisations and other institutions in three areas: *Trade Fairs and Exhibitions*, *Congresses* and *Sport and Entertainment*.

AMK Berlin maintains a network of representatives in 48 countries on all five continents, supplying international business partners with information and assisting them in establishing and maintaining contacts.

AMK Berlin Gastronomie (AGG), under the management of Kempinski Congress GmbH, is a subsidiary that offers a wide range of catering services for the various events.

Special Events 1992

iba '92 Berlin—15th International Bakery Trade Fair Berlin, May 9 to 17, 1992—is the world's largest bakery trade fair. The *iba '92 Berlin* takes place in the heart of Europe when there is a need for major investment, machinery and manufacturing licenses in the countries of Eastern Europe and when Europe is on the threshold of the Single European Market.

ILA '92—Berlin Brandenburg International Aerospace Exhibit, June to 21.

Highlights from the Programme of Events

Berlin is the venue for a number of leading international trade fairs, exhibitions and congresses. The main events are:

- International Green Week Berlin (agricultural show and food exhibition)
- International Tourism Exchange ITB Berlin (world's trade fair for the tourism sector)
- International Audio and Video Fair Berlin (world fair for communication and consumer electronics)
- Import Fair Partners for Progress (for exhibitors from East and Central Europe and

overseas, for the European import trade)
- IFW—International Fair Water Supply (in conjunction with WASSER Berlin's show Water is Life, a four-yearly meeting of the world's water experts)
- ShowTech Berlin (entertainment technology, stage engineering, equipment and organisation)
- AAA-Motor Show Berlin
- bautec Berlin (a technical event, open to the public, focusing on urban renewal, renovation and maintenance of buildings)
- allerHand—Kulinaria & Handwerk Berlin
- InduTech Berlin (for the investment goods market)
- buero-data Berlin (for the office industry)

Moreover, since 1992 AMK Berlin has been the executive company responsible for official participation by the Federal Republic of Germany in trade fairs around the world, involving the planning and organisation of joint displays by German companies at numerous venues abroad—some 30 such projects annually.

Sport and Entertainment in Berlin

The *Sport and Entertainment Division* handles events in the Deutschlandhalle and Eissporthalle, and entertainment in the ICC Berlin, such as:
- International Show Jumping Tournament CHI and Cycle Race
- Menschen-Tiere-Sensationen (circus spectacular)

Berlin has a long history of involvement in trade fairs and congresses. Recent events have had far-reaching political and economic implications. As an international service company in the centre of Europe, AMK Berlin is committed to serving the best interests of the city. The Federal Republic continues to be a world leader in trade fairs, and AMK Berlin has made a major contribution. Today Berlin is one of the world's leading international venues for trade fairs and congresses. □

ARTHUR ANDERSEN

ARTHUR ANDERSEN & Co. SC

The ARTHUR ANDERSEN WORLDWIDE ORGANIZATION is one of the largest international financial-services organizations, providing a full range of professional services in accounting and auditing, tax compliance and planning, and management information consulting through 307 offices, including representatives in twelve principal cities throughout Germany.

Since its founding in 1913, Arthur Andersen's guiding principle has been the assurance that all partners have a similar interest in serving the firm's clients everywhere in the world. In keeping with this tradition, the firm created in 1978 a Societe Cooperative in Geneva, Switzerland to coordinate worldwide services. This Societe Cooperative, which is controlled by all partners in the national practice entities throughout the world, facilitates consistently high-quality client service.

Accounting and Audit—Arthur Andersen has always taken a business approach to its audit assignments and accounting services. All professional personnel are first trained to develop an understanding of the client's business and operating objectives. Recommendations regarding management systems are developed within this framework. Using this business approach, the organization renders specialized assistance in the accounting and financial aspects of seeking and evaluating potential acquisitions, locating plants and other facilities, and other contractual relationships.

Tax Services—Arthur Andersen's tax practice is supported by the world's largest nongovernmental body of full-time tax professionals. Tax personnel in each office are totally familiar with local tax matters as well as important concepts of international tax planning and the intricacies of international tax treaties. Through communications networks and worldwide research capabilities, the firm offers fully integrated tax advice on such matters as organization structure, crossborder trading, trans-national acquisitions and mergers. The tax practice also assists expatriates in their individual tax planning and compliance.

Andersen Consulting—For more than 35 years Andersen Consulting has helped clients meet their business information needs. The practice has one of the world's largest forces of consultants with 25,000 highly skilled professionals dedicated to providing excellent client service. Andersen Consulting professionals plan, design, and install information systems and conduct analytical studies that assist information executives with their financial, marketing, information processing and other operations. □

Audi

AUDI OF AMERICA, INC. imports and markets advanced-design vehicles manufactured by Audi AG of Ingolstadt, Germany. Audi of America is located in Auburn Hills, Michigan, with four regional offices serving multi-state areas. In addition, an independent distributor is located near New York City.

Audi of America, Inc. began formal operations on September 1, 1985 and includes what had been Volkswagen of America's Audi Division. The functional areas within Audi of America include sales, service, advertising, merchandising and public relations.

Audi entered the U.S. market in 1969 and in the first full model year of 1970, Audi sold just under 7,700 cars through 138 dealers. Today, some 340 dealers market Audi products throughout the United States.

Audi AG, the manufacturer of Audi automobiles, is headquartered in Ingolstadt, Germany in the state of Bavaria, just north of the city of Munich. The other principal factory is located in Neckarsulm, not far from Stuttgart. Among the world's automobile manufacturers, Audi is known for its product innovation, particularly in aerodynamic design and the advancement of all-wheel drive vehicles. Audi AG is headed by Dr. Ferdinand Piech, chairman of the Board of Management.

Audi AG traces its history back to the early portion of this century when in 1909 August Horch left the automobile company he founded under his own name and began a new firm called *Audi*—the Latin translation of Horch's name.

The first Audi vehicle designed by Horch was a sports car—it won its first race in Sweden, just three months after introduction. Since that time, Audi has continued to demonstrate its superior performance in the motorsports arena.

In 1986, Audi of America clinched the U.S. Sports Car Club of America PRO-Rally Manufacturer's Championship. The Audi Sport Quattro S-1 triumphed in its class four years running, from 1984-1987, in Colorado's famed Pikes Peak Hill Climb, achieving record speeds and Overall Championships in 1986 and 1987.

In the 1988 SCCA Trans-Am racing circuit, Audi dominated the competition, winning both the Manufacturer and Driver Championships with a production-based Audi 200 Quattro.

Audi moved into the IMSA-GTO racing circuit in 1989 with a production-based 90 Quattro. Having missed the two long distance races in the beginning of the series, Audi dominated the second half, but by that time, there were other manufacturers and drivers who had too many points to catch up. Even so, Audi finished second in the Driver Championship at season's close.

Audi is at the forefront in automotive innovation, being a technological leader in all-wheel drive with Audi's unique Quattro system, in aerodynamic styling, and in the use of anti-lock braking systems. □

BASF

BASF CORPORATION is one of the ten largest chemical companies in North America. With over $5 billion in sales, it accounts for about 22% of the BASF Group's worldwide business.

BASF has been serving the North American market for more than a century. Initially, the company built its business on imports from Germany. Today, 90 percent of its sales on this continent consist of products *Made in North America*.

The company began to transfer its technology in the mid-50's. As a first major step, it joined the Dow Chemical Company in the manufacture of fiber intermediates. Ultimately, the joint venture expanded into manmade fibers.

In 1969, the chemical production base in North America was broadened with the acquisition of Wyandotte Chemicals Corporation. This was followed by the purchase of Dow's share of Dow Badische, Chemetron (pigments) and GAF's dyestuff operations in Rensselaer, New York.

In 1985, the company reinforced its position on the leading edge of chemical technology with the purchase of Celanese's advanced composite materials business. In addition, it strengthened its presence in coatings with the acquisition of Inmont. With the purchase of American Enka, BASF became a major fiber manufacturer in North America.

As BASF continued to grow on this continent, the company's businesses evolved into 12 different corporate entities.

To integrate and consolidate these operations, BASF moved at the close of 1985 to put its organization in North America under one umbrella, known as BASF Corporation. The Corporation today includes all BASF operations in North America.

BASF Corporation operating responsibilities for North America have been distributed among five executive vice presidents who are also managing directors of the BASF Group.

The five divisions include Chemicals, Coatings & Colorants, Consumer Products & Life Science, Fibers, and Polymers.

BASF Corporation employs about 18,500 people at 41 major production facilities in North America. BASF Corporations's highly diversified product mix includes advanced composite materials; antifreeze; audio, video and computer recording media; automotive coatings; basic, intermediate and specialty chemicals; colorants; crop protection products; dispersions; fibers and fiber raw materials, pharmaceuticals; plastics; urethane specialties and vitamins. □

When BMW OF NORTH AMERICA, INC. was established in the United States in March, 1975, the company faced the challenge of building a reputation in the U.S. for a very special type of automobile. The product was little known in this country except within a very select group of knowledgeable car enthusiasts who appreciated and understood the engineering refinements found in a BMW.

As BMW enters the 1990s, the company's mission is as clear as the day it was established: continue to deliver the exciting driving experience that has enabled BMW to capture what one journalist has termed "a share of mind that is completely out of proportion with its share of market."

In June, 1991, the company introduced an all-new 3-Series sedan: the BMW 325i. The new model is an exciting addition to BMW's balanced model line which features a variety of body styles and engine sizes to meet the demands of today's luxury/performance automobile consumers. BMW prices range from $30,000 for the 325i to $75,000 for the top-of-the-line 850i sports coupe. BMW also sells 11 different models of motorcycles, ranging in price from $8,000 to $13,000.

BMW of North America, Inc. is headquartered in Woodcliff Lake, New Jersey, and has regional facilities in California, Georgia, New Jersey and Illinois. Part Distribution facilities are located in California and New Jersey; and port facilities are in New Jersey, Georgia and California.

Karl Gerlinger is president and chief executive officer of BMW of North America, Inc. □

Baden-Württemberg

BADEN-WÜRTTEMBERG with its capital Stuttgart is Germany's third largest state (9.7 million inhabitants, area of 36,000 sq. km.), comparable in size and population to Belgium. The state has a balanced economic structure and is the leading economic force in Germany. Although home to world renowned corporations such as Bosch, Mercedes-Benz, Porsche and Zeiss, as well as the German headquarters for international companies such as IBM, Hewlett-Packard and Sony, Baden-Württemberg's industrial structure is characterized by a wide range of small and medium-sized, specialized and prosperous enterprises. The United States is Baden-Württemberg's most important export market.

A look at the map shows that Baden-Württemberg is centrally located in Europe and combines all the advantages of the EC Single Market, the united Germany and the new East European markets. A market potential of 200 million people can be reached easily.

National borders will continually lose their significance as the European unified market is realized. Thus, economic activities will concentrate on those areas where conditions are most favorable.

The particular strengths of Baden-Württemberg's export-oriented companies are based on quality workmanship and meeting delivery dates. The export rate is the highest in Germany and most companies traditionally maintain excellent international trade relations.

Baden-Württemberg has the highest concentration of research facilities in Europe: 9 universities, 23 polytechnical institutes, 3 large-scale research facilities, 11 Max-Planck Institutes, 13 institutes of the Fraunhofer Gesellschaft, 9 institutes for joint industrial research and 130 centers for technology transfer as part of the Steinbeis Foundation.

More sunshine hours than anywhere else in Germany, the beauty of the Black Forest, the vicinity of the Alps, Lake Constance and romantic cities like Heidelberg and Tuebingen create an outstanding quality of life in Baden-Württemberg.

For further information please contact:
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HYPOBANK
BAYERISCHE HYPOTHEKEN- UND WECHSEL-BANK AKTIENGESELLSCHAFT

In 1835, HYPO-BANK was established in Munich by royal decree of King Ludwig I of Bavaria. Hypo-Bank is Germany's oldest publicly-quoted bank and one of the largest with consolidated assets of more than DM 174 billion.

Hypo-Bank is engaged in both commercial and mortgage banking, operates the largest branch network in southern Germany and is also active nationwide in key business centers such as Berlin, Düsseldorf, Frankfurt,

Hamburg, Hanover, and Stuttgart. The bank is a prime address for correspondent banking.

Its New York Branch offers a complete range of corporate banking services including prime and Libor-based loans, foreign exchange, money transfers, letters of credit and documentary collections as well as international private banking. Through other branches in Cayman Islands, Hong Kong, and London, its wholly-owned subsidiary in Luxembourg, representative offices in Moscow, Italy, South Africa, and Spain, and its partnership in ABECOR, Hypo-Bank offers financial services around the globe. Through its affiliation with ABD Securities, New York, its customers have direct access to the U.S. securities markets, brokerage and investment management.

For more information and a copy of our annual report, please contact the Banking Department, Financial Square, 32 Old Slip, New York, N.Y. 10005, Tel.: (212) 248-0650 or the International Department, A/PSK, Theatinerstrasse 11, D-8000 Munich 2, Tel.: (089) 2366-8323, Telex: 52865-0 □

The Bank offers a wide range of financial services on a global basis. In Germany, it is one of the largest issuers of securities as well as a major corporate lender. Its primary strengths include a substantial DM deposit base and long-term, fixed rate DM loan capabilities.

Since establishing its Representative Office in New York in October 1979, and gaining full branch status two years later, in October 1981, Bayerische Landesbank has become a major wholesale lending participant throughout the country.

The New York Branch offers a full range of domestic and international financial services, including loans, foreign exchange and money market expertise, as well as documentary and collection capabilities.

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Bayerische Landesbank

BAYERISCHE LANDESBANK's origins date back to the late nineteenth century, and the Bank has grown into one of the leading banking institutions in the Federal Republic of Germany. Headquartered in Munich, Bayerische Landesbank operates branch offices in New York, London, Paris, Singapore and a subsidiary in Luxembourg and Bayerische Landesbank (Schweiz) AG, as well as Representative Offices in Tokyo, Vienna, Toronto, Johannesburg, Prague, Budapest and Hong Kong. In addition, a Grand Cayman Branch as well as an International Banking Facility (IBF)—operating out of New York—supply offshore banking services.

Bayerische Landesbank, a public-sector financial institution, is 50% owned by the State of Bavaria and 50% by the Bavarian Savings Banks Association. The Association is owned by the savings banks, which in turn are owned by their municipalities. By statute, Bayerische Landesbank's obligations are jointly and severally guaranteed by its owners.

Bayerische Landesbank's consolidated total assets now exceed DM 170 billion. The Bank has been accorded the highest short and long-term ratings from both major U.S. agencies (Moody's P-1, Aaa; Standard & Poor's A-1+, AAA).

BECKER AUTORADIO

Becker Autoradio is known worldwide for its quality radios, which are factory-installed in the leading makes of German automobiles and also sold through authorized dealers.

BECKER OF NORTH AMERICA, INC., operates the nationwide service network that maintains Becker automobile radios and also imports and distributes them to aftermarket retailers. Becker of North America, Inc., also imports, distributes and services Becker avionic equipment, including communications and navigation equipment as well as emergency transmitters and receivers.

Becker products are manufactured in several locations in West Germany. The company's worldwide headquarters, research and development offices and main manufacturing plant are located in Ittersbach, West Germany.

The company was founded in 1945 when Max Egon Becker, a radio enthusiast, opened a small radio sales, repair and audio research business in two rooms of a 300-year-old house in Pforzheim, West Germany.

By 1948, with the aid of a small staff, Becker produced a limited number of automobile radios. The following year, the first Becker Autoradio was installed in a Mercedes-Benz. Since that time, Becker has remained the radio of choice for Mercedes-Benz.

In the next decade, the company grew in size and its radios continually outperformed other radios in numerous competitions. In 1953, Becker introduced the company's first AM-FM car radio with a signal-seeking circuit. This proved to be a breakthrough which permitted single control, automatic selection of stations on both AM and FM bands and greatly simplified operation.

In 1956, the company entered the sophisticated avionics field and its first product, the communication set "AR 24", was an instant technical and commercial success.

By 1960, with the number of Becker radios on American roads growing so rapidly, the company decided to set up a United States facility in Pasadena, California.

In 1982, the company moved to its present quarters in Upper Saddle River, New Jersey, allowing Becker of North America, Inc. to provide increased service and to maintain a large inventory of radios and parts to keep pace with the increasing demand on this continent. □

Boehringer Ingelheim

BOEHRINGER INGELHEIM CORPORATION, Ridgefield, Connecticut, is dedicated to the development, manufacture and marketing of innovative health care products in the United States. As the principal licensee of Boehringer Ingelheim International GmbH in the U.S., the corporation is sole stockholder of a group of companies that produce ethical pharmaceuticals, veterinary medicines and biologicals, agricultural chemicals and fine and specialty chemicals as well as ingredients for the bakery industry.

The largest operating company of Boehringer Ingelheim Corporation (a wholly-owned subsidiary of Pharma-Investment Ltd., Toronto, Canada) is Boehringer Ingelheim Pharmaceuticals, Inc., a developer, manufacturer and distributor of prescription medications. In 1991, marking its 20th anniversary as an American venture, the company opened a new administration headquarters in the 300-acre campus that already houses its manufacturing and R&D facilities. The state-of-the-art research and development complex contributes importantly to the parent company's worldwide activities.

Other subsidiaries of the Boehringer Ingelheim Corporation include: Roxane Laboratories, Inc., of Columbus, Ohio, a pioneer in development of unit dose packages for hospitals and nursing homes; Boehringer

BECKER AUTORADIO

Found on all roads of the world. Factory installed in many of the most prestigious cars of Europe. Renowned for functional styling and outstanding performance. Becker Autoradio, your companion in safe driving.

BECKER OF NORTH AMERICA, INC.
16 PARK WAY • UPPER SADDLE RIVER, NJ 07458
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Ingelheim Animal Health, Inc., St. Joseph, Missouri, a developer, manufacturer and marketer of medicines and biologicals for both food production and domestic animals; Henley Chemicals, Inc., Montvale, New Jersey, which supplies fine chemicals to such markets as food and beverages, pharmaceuticals, personal care, agriculture and plastics; Lee Laboratories, Petersburg, Virginia, which produces pharmaceutical chemicals; Bilchem Ltd., Ponce, Puerto Rico, which produces pharmaceutical active ingredients; and its newest subsidiary, BI Bakery Products, Bohemia, New York, which markets food additives and baking ingredients. □

THE BUDD COMPANY

THE BUDD COMPANY is recognized internationally as a leading supplier to the automotive industry. As a subsidiary of Thyssen AG of Duisburg, Germany, Budd is backed by the technical resources of an international partner in the automotive industry with expertise in materials, components and systems. This year marks the 14th anniversary of the Budd-Thyssen relationship.

Siegfried Buschmann is Chairman of the Board and Chief Executive Officer.

Buschmann has served on Budd's Board for nine years. In 1986 he was named as Vice Chairman and Chief Financial Officer. Prior to this appointment, he had served as Senior Vice President and Chief Financial Officer.

Before joining Budd in 1982, Buschmann, a native of Essen, Germany, served in several executive positions at Thyssen AG.

Buschmann is currently President of Thyssen Holding Corporation, which owns all of Thyssen's companies in the U.S. Buschmann is also a member of the Board of Directors of Budd Canada Inc., Hueller Hile Corporation, and Thyssen Specialty Steels Inc. He is Chairman of the Supervisory Board of Ferrozell GmbH in Augsburg, Germany.

Buschmann earned a master's degree in business administration in 1964 from Wilhelms University in Muenster, Germany.

Budd's range of automotive products includes steel stampings and assemblies, full finished chassis frame components, heavy duty truck wheels, hubs, drums and attaching parts, SMC plastic autobody panels, prototypes, castings, cold weather heating aids and water skis.

Budd offers the unique capability to supply its customers with automotive components from a full range of materials, such as steel, plastic, aluminum, and gray iron.

New products include Budd-Brite™, a chrome heavy duty truck wheel which is warranteed for one full year and Budd Hi-Flex™ SMC, a new material that is twice as flexible as conventional SMC composite, features a Class A surface finish and is especially suited for vertical autobody panels such as doors and fenders.

The company, headquartered in Troy, MI, currently employs more than 9,000 worldwide.

If you would like more information about Budd, please write or call:

The Budd Company
Public Affairs Department
3155 West Big Beaver Road
Troy, MI 48084
Telephone: (313) 643-3520 □

CHASE

Committed to excelling as a global financial services institution, THE CHASE MANHATTAN BANK offers wholesale and retail customers a broad array of products and services in its chosen geographic markets. Chase's strategic focus centers on six businesses: three wholesale—Global Corporate Finance, Global Risk Management, and Transaction and Information Services—

and three retail—Global Private Banking, Consumer Products, and Regional Banking.

Chase AG, headquartered in Frankfurt, offers corporate finance products and expertise in mergers and acquisitions, project finance, risk management, big-ticket leasing, private placements and syndications. Chase also has a long history of providing special services to corporations in the manufacturing, automotive, chemical, energy, shipping, media and electronics, consumer goods and services, and aerospace industries.

Transaction and information services—Chase InfoServ International—brings together cash management, global securities, trade finance and international advisory services, all delivered through a global electronic network.

Chase traces its origin to the Bank of the Manhattan Company, founded in 1799, and the Chase National Bank, established in 1877. The two merged in 1955 to form The Chase Manhattan Bank.

Chase has been represented in Germany since 1928. In 1947, Chase became the first U.S. bank to open a full-scale office in Frankfurt.

COMMERZBANK

Commerzbank at a Glance

One of Germany's *Big Three* banks, COMMERZBANK provides an extensive range of services to its over 3 million customers at home and abroad. Founded in 1870, it is today engaged in commercial, investment, and merchant banking, and maintains extensive dealing activities in all these areas. While the emphasis in commercial banking used to be on short and medium-term loans, long-term lending has been gaining more significance. The Bank has always been particularly strong in wholesale banking, where its services span the full range of lending and sophisticated forms of fund-raising. Of late, its international investment banking activities have markedly increased.

The Bank's retail operations—which also comprise such areas as home loans, securities trading, custody services, and trust business—have also experienced rapid growth over the last three decades, and now account for roughly half of its overall domestic business. Cooperation agreements with major providers of building finance, insurance services, business counselling and commercial property brokerage have boosted both the bank's retail and wholesale activities still further.

The cooperation agreements also extend to the development of business in eastern Germany now that unification has been completed. Commerzbank was present in some 50 locations in East Germany when German monetary union—making normal banking activities possible—became effective on July 1, 1990, and it is rapidly expanding its operations there.

At mid-1991, Commerzbank's consolidated business volume totalled some DM 230 billion, the Group's capital and reserves amounting to nearly DM 7.6 billion. The Bank's more than 190,000 shareholders received a DM 10 dividend per DM 50 nominal share for 1990. Commerzbank's shares are quoted on all eight German and on fifteen foreign stock exchanges. The Commerzbank Group is backed by a network of over 950 offices at home and abroad, employing 28,000 people. It includes about 20 domestic banking and financial associates, the most important of which are Rheinhyp, one of the leading German long-term credit banks, and Berliner Commerzbank.

Strong International Presence

Commerzbank's substantial international commitment, which can be traced back to its very inception, is reflected not least by its worldwide presence, extending to some 70 foreign outlets and holdings in over 30 countries. Operative units are maintained in major international financial and economic centres, where fifteen branches—in Antwerp, Atlanta, Barcelona, Brussels, Chicago, Grand Cayman, Hong Kong, London, Los Angeles, Madrid, New York, Osaka, Paris, Singapore and Tokyo—and six subsidiaries—in Amsterdam/Rotterdam, Hong Kong/Tokyo, Luxembourg, New York, Singapore and Zurich/Geneva—are doing business. In addition, Commerzbank has 23 representative offices abroad as well as numerous holdings in foreign financial institutions.

Over the last 25 years, Commerzbank has placed much emphasis on expanding its international activities, which on a Group level now account for approximately one-third of its total business. The steady growth of Germany's foreign trade over the years, particularly as regards exports of capital goods, would not have been possible without the energetic assistance and financial support of German banks. Commerzbank's expertise covers the whole area of trade finance, especially as regards the long-term end of such financing.

The Bank is also heavily involved in handling international corporate finance and syndication business. In terms of financial

Aluminum
The limit
is your imagination.

Imagine a product: both strong and light weight.

A product attractive in appearance and adaptable to your needs.

The product is aluminum.

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muscle, placing power, and standing, Commerzbank ranks among the world's investment banking élite. It is one of the major players not only in the Euromarkets—which, together with the German capital markets, it considers its home turf—but also in all other international financial markets.

Its investment banking services include the managing and underwriting of bond issues and a multitude of other borrowing instruments in various currencies and for differing maturities. This includes the syndication of Eurocredits and other fund-raising facilities, again in both D-marks or other currencies. The Bank specializes in putting together tailor-made deals to meet specific client needs, ranging from private placements, convertible bonds and warrants to interest and currency swaps, options and futures. Commerzbank assists foreign companies in obtaining a German stock exchange listing for their shares, and provides M & A services. The latter area of activity has gained in importance over the past few years, as have project-finance operations on a worldwide scale.

Commerzbank maintains extensive operations in the United States. In 1971, the Bank was the first German bank to open a full-service branch in the country. In addition to this New York branch, Commerzbank's U.S. network now includes branches in Chicago and Los Angeles, an agency in Atlanta, and an investment banking subsidiary in New York, Commerzbank Capital Markets Corporation. □

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Growing your business in a foreign country is a formidable challenge. The business must be adapted to fit its new environment if it is to succeed. This is particularly true in the demanding American marketplace.

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Through our member firms, Treuhand-Vereinigung AG and Treuarbeit AG, we are well represented in Germany, with offices in over 35 German cities.

For further information, please contact:
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"NO MAN IS WISE ENOUGH BY HIMSELF"

(Plautus, Greek playwright, c. 200 BC)

COOPERS & LYBRAND PROFESSIONALS KNOW THE TRUTH of this same principle today. We utilize our global resources to help companies like yours clearly identify their problems and arrive at effective solutions.

Coopers & Lybrand is one of the world's leading public accounting and consulting firms, with 65,000 people in 115 countries. We cater to the special needs of the German investors and businesses in the U.S. Our German Business practice is a team of dedicated professionals with German business experience, qualifications (Wirtschaftsprüfer) and language skills, as well as knowledge of the U.S. business environment. For information contact:

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Solutions
for Business™

DG BANK
Deutsche Genossenschaftsbank

DG BANK, a wholesale bank headquartered in Frankfurt am Main and operating an extensive international network, provides comprehensive commercial and investment banking services and acts as central bank for the cooperative banking system that forms an integral part of the financial community in the Federal Republic of Germany.

In the United States, DG Bank has established a firm presence through branches in New York, Atlanta and Los Angeles, and a brokerage company in New York, the DG European Securities Corporation.

The Bank's New York Branch provides a wide range of commercial banking services for corporate, institutional and private clients. Offshore business is conducted through an International Banking Facility and a Cayman Islands Branch. The Atlanta and Los Angeles Branches concentrate on servicing corporate banking needs in their respective business regions.

Worldwide the Bank's network includes branches, subsidiaries, affiliates and representative offices in Rio de Janeiro, Tokyo, Hong Kong, Singapore, London, Amsterdam, Luxembourg, Paris, Zurich and Moscow. Joint ventures link DG Bank with the Spanish, Czechoslovakian, Hungarian, Romanian, Turkish and Malaysian markets.

On behalf of the German cooperative banking system, DG Bank in 1990 further strengthened its links with the regions of the forthcoming Single European Market. The Bank's subsidiaries active in mortgage banking, home loans and insurance also concluded a number of cooperation agreements with corresponding enterprises in Western Europe.

In 1991, the consolidated total assets of DG Bank increased by almost 10 percent to DM 205.4 billion (U.S.$ equivalent 137.5 billion), while its business volume (total assets plus contingent items) grew by 9.4 percent to DM 214.9 billion (U.S.$ 143.8 billion). The volume of loans in DG Bank Group's accounts grew by 8.9 percent to DM 137.0 billion (U.S.$ 92.2 billion); the Group's total foreign lendings, including money market deposits, amounted to DM 28.5 billion (U.S.$ 19.1 billion), international loans in a strict sense reached DM 11.8 billion (U.S.$ 7.9 billion).

At year-end, 1990, the German cooperative banking system—ultimately owned by 11.4 million shareholders from all walks of life—consisted of approximately 3,400 local banks (usually called *Volksbank* in urban areas and *Raiffeisenbank* in the countryside) with over 20,800 offices, three regional banks, DG Bank and numerous specialized financial institutions with consolidated assets exceeding DM 707 billion (U.S.$ 473 billion). □

DAIMLERBENZ

DAIMLER-BENZ is an integrated group which operates all over the world and which has complemented and extended its main sphere of activity in the automotive sector by opening up new fields in high technology. With an automotive tradition which goes back over more than 100 years, combined with pace-setting engineering, Daimler-Benz is a world leader in the production of high-quality cars and economical commercial vehicles. The group is also involved with new technologies such as the fields of electronics and aerospace, as well as with the services sector.

With its motor vehicle business, with AEG and the companies of Dornier, MBB, MTU and Telefunken Systemtechnik which are now integrated into Deutsche Aerospace, Daimler-Benz has, over the last few years, become the industrial company in the Federal Republic of Germany with the highest turnover.

Daimler-Benz—the new group

The new organizational and managerial structure of Daimler-Benz introduced during the last few years serves to facilitate the expansion and grouping together of activities. Since mid-1989, Daimler-Benz AG has been operating as an executive holding company with overall managerial responsibility for the legally independent corporate units of Mercedes-Benz AG, AEG Aktiengesellschaft, Deutsche Aerospace AG and Daimler-Benz InterServices (debis) AG:

Mercedes-Benz AG
- Passenger cars
- Commercial vehicles

AEG Aktiengesellschaft
- Automation systems
- Rail systems
- Office and communication systems
- Electrotechnical systems and components
- Consumer products
- Microelectronics
- Transport systems

Deutsche Aerospace AG
- Aviation (MBB, Dornier)
- Space systems (Dornier, MBB)
- Defense systems (Telefunken Systemtechnik, Dornier, MBB)
- Propulsion systems (MTU)

Daimler-Benz InterServices (debis) AG
Software House
Finance Services
Insurance Services
Trading Services
Marketing Services

With this new group structure, Daimler-Benz set the scene for the future. In the integrated high-technology group, a lively exchange of knowledge and research results is assured so that these resources are utilized efficiently. This benefits all the corporate units in the group, and especially Mercedes-Benz motor vehicles, which will continue to be the main carriers of progressive technology. □

DRT International

Our Global Frm

DRT INTERNATIONAL is one of the world's largest providers of audit, management consulting and tax services. Our 1990 revenues were U.S.$4.2 billion.

As the integration of regional economies accelerates, multinational and large national businesses will require more than skill and determination. Broad vision, increased investment in technology and state-of-the-art specialized services are also necessary. With some 60,000 people in 625 offices in more than 100 countries, DRT International meets these requirements.

Core Services

In addition to our 30,000 accounting and auditing professionals, DRT International has nearly 5,000 management consultants. Many of our more than 6,600 tax consultants have special international expertise. Our range of services is expanding to deal with the complex business issues of the 1990s. We are not only a world leader in mergers and acquisitions, but also in joint-venture and capital-market services.

MNC Specialists

We serve 552 companies with sales or assets in excess of U.S.$1 billion—including the world's largest manufacturer, the largest retailer, six of the twenty-five largest banks, the two largest insurance companies, and the three largest trading companies in the world.

Worldwide Strength

DRT International enjoys a balanced presence in the three major economies of Asia Pacific, Europe and North America. In Europe, we have offices in 24 countries and every key city. Our Japanese member firm, Tohmatsu & Co., is the nation's largest. In North America, we rank second in the number of audits of U.S. $1 billion-plus companies. Fueled by our new capabilities in Eastern Europe and our expanding range of international services, we are committed to ever greater growth.

Global Vision

We offer clients complete geographic coverage, the broadest possible industry strengths, the best in human and financial resources and outstanding services delivered consistently throughout the world. This, coupled with our flexible structure, ensures that DRT International can anticipate and meet client needs in any country, and can deliver innovative solutions to complex business problems on a worldwide basis. □

Deutsche Bank

A century of universal banking

DEUTSCHE BANK, headquartered in Frankfurt-on-Main, is the largest bank in the Federal Republic of Germany with total assets (consolidated) as per June 30, 1991 of DM 428.8 ($236.7) billion, deposits of DM 386.8 ($213.5) billion and Group capital and reserves of DM 16.3 ($9.0) billion. It is also one of the world's leading banking institutions.

Deutsche Bank as a universal bank is active in both commercial and investment banking. The Deutsche Bank Group includes commercial banks, mortgage banks, investment banking companies, leasing companies, international financing companies, consulting firms and other specialized institutions in Germany and abroad. It also diversified into the life insurance market.

The principal strength of Deutsche Bank derives from its commercial banking position in Germany where it can claim to be the leading bank in corporate and private customer business, measured by assets as well as deposits. Its network comprises 1,500 domestic branches. Deutsche Bank also is Germany's largest investment bank and brokerage firm. It ranks among the top participants in the Eurobond market and is represented in all important financial centers of the world. Through Deutsche Bank Luxembourg S.A., the bank is one of the leading institutions involved in Euromarket lending and loan syndications.

In recent years, the bank has substantially increased its international commercial and investment banking activities with a special focus on Europe where its presence has been enhanced considerably in Italy, The Netherlands, Spain and Portugal. It further strengthened its position appreciably by acquiring the Morgan Grenfell Group plc, London, the British merchant bank. With similar emphasis, the bank consolidated its presence in Asia by acquiring the former European Asian Bank and merging it with Deutsche Bank, thereby adding a comprehensive branch network in one of the major growth areas of the world.

Deutsche Bank has been represented throughout the eastern part of Germany since mid-1990, when the social, economic and monetary union between the two Germanys came into effect. The bank operates there today with about 200 offices and 8,500 employees.

Deutsche Bank's objective in North America continues to center on serving the needs of its German and international clients active in the U.S. and Canada as well as further strengthening its position in the North American domestic corporate market. Its New York Branch, established in 1978, is mainly involved in commercial wholesale banking with emphasis on short and medium term lending, credit enhancement, project finance, leasing, documentary business, foreign exchange and other risk management products. The bank also has branches in Chicago and Los Angeles. Off-shore activities are channeled through the International Banking Facility (IBF) and the Cayman Islands Branch.

Deutsche Bank is engaged in U.S. investment banking and securities brokerage through its wholly-owned subsidiary Deutsche Bank Capital. In Canada, the Bank operates—in the commercial banking section—through Deutsche Bank (Canada) and the wholly-owned securities broker McLean McCarthy, both in Toronto. Furthermore, the bank is active in the U.S. in sales financing through its wholly-owned subsidiary Deutsche Credit Corporation in Deerfield, Illinois. □

Deutsche Credit

DEUTSCHE CREDIT CORPORATION, a Chicago based commercial finance company with a nationwide network established in 1978, is a wholly owned subsidiary of Deutsche Bank AG and a major source of asset based financing or leasing for domestic and international companies.

The comprehensive range of financial services offered by Deutsche Credit Corporation includes custom-designed financing programs in areas like capital equipment loans, leasing, leveraged leasing, conditional sales financing, floorplanning and private label financing. These wholesale and retail marketing programs can accommodate manufacturers, dealers/distributors and end-users.

Deutsche Credit Corporation focuses on financing capital goods produced by the following industries: Aircraft, Communications, Construction Machinery, Data Processing, Electronic Instrumentation, Machine Tools, Material Handling, Medical Equipment, Mining, Printing and Graphic Arts, Transportation, Production Machinery and more.

Headquartered in Deerfield, Illinois (a Northwestern suburb of Chicago), Deutsche Credit Corporation employs 160 professionals in the head office and its district offices, located in major industrial areas such as Atlanta, Boston, Charlotte, Chicago, Cleveland, Dallas, Los Angeles, Minneapolis, Philadelphia, Richmond, San Francisco and Tampa. Through this network Deutsche Credit Corporation is able to provide efficient financial service to its corporate clients nationwide. □

T·e·l·e·k·o·m

DEUTSCHE TELEKOM, INC., formerly known as DBP Telekom, Inc. which was incorporated under the laws of Delaware on March 20, 1990, is a subsidiary of Deutsche Bundespost Telekom, which is headquartered in Bonn, Federal Republic of Germany. Deutsche Bundespost Telekom is the second largest public international telecommunications carrier in the world with 220,000 employees and $27 billion in revenues. Deutsche Telekom, Inc. is the American headquarters of DBP Telekom. Located in New York City, it has three major objectives:

1. To provide consultation and information on DBP Telekom services to multinational customers who have voice, data or video telecommunications requirements between U.S.A. and Europe, or who need information on telecommunications services available within Europe. This local support, coupled with the support provided by our Germany-based team, will allow the customers to examine the feasibility of making Germany their European telecommunications center (network node, data center or telemarketing center).

national telecommunications carriers to provide telecommunications services to Germany for multi-national customers and to jointly develop new services to further improve telecommunications capabilities.

3. To perform market research and give feedback to the Bonn headquarters on new services, pricing structures, service levels, etc. in order to maintain the highest level of customer satisfaction.

Mr. Herbert Wirz is President and Mr. Don Hassenbein is Vice President.

Mr. Wirz formerly worked with the Ministry of Posts and International Telecommunications beginning in 1965 and was active in international work in the mid sixties, having been involved in ITU work, especially in the field of international transmission. He was also a member of the CCITT Study Groups XII, XV, XVI and Spec. C. In 1972 he became chairman of the Mixed Study Group C (CCITT and CCIR). In 1973 he moved to Bonn and was responsible for international network strategy in the Ministry of Posts and Telecommunications. In this function he was the representative of Deutsche Bundespost Telekom for the Transatlantic Communications Policy in Facility Planning from the beginning of the work of the U.S.-European Committee in 1973. He was also a member of many of the European CEPT-Groups and the Governor and Signatory of the Deutsche Bundespost in INTELSAT, EUTELSAT and other European Organizations such as ESA.

Mr. Wirz is 59 years old, born in France, married since 1963. He has 3 children (19, 23, 25) and has lived in Bonn since 1973.

Mr. Hassenbein has twenty three years of experience in the telecommunications arena, speaks fluent German and has lived in Germany nine years. His previous assignment was as a Marketing Director for a large American telecommunications carrier located in Frankfurt, Germany. His responsibilities included assisting multi-national customers with their international voice, data and video applications. Mr. Hassenbein was active in the American and German Chambers of Commerce. He is 49 years old, born in Pennsylvania (U.S.A.) and is married with three children. He wife, Elke, was born in Hamburg, Germany

Deutsche Telekom, Inc. opened additional offices during 1991 in order to better serve customers' needs; one in San Francisco and one in Chicago. These regional offices had their official openings last September. □

Dresdner Bank

DRESDNER BANK is headquartered in Frankfurt, Germany, and is one of the world's largest and most experienced international banks.

In the United States, Dresdner Bank serves customers from coast to coast, through its branches in New York, Chicago, Los Angeles, and a regional banking subsidiary in Miami. A wide variety of sophisticated banking services are offered to corporate customers in the U.S., and from around the globe.

Dresdner Bank opened its first office in New York's financial district in 1965. Since then, Dresdner has played an important role in financing increased United States-German economic trade and investment. Now, a quarter of a century later, Dresdner is serving customers from its new, modern offices at 75 Wall Street.

A wide range of corporate finance and investment banking services are provided by ABD Securities Corporation, which recently celebrated its 20th anniversary in the United States. With headquarters in New York, ABD also maintains offices in Boston and Chicago.

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EM INDUSTRIES INC., 5 SKYLINE DRIVE, HAWTHORNE, NY 10532

ABD owns five seats on the New York Stock Exchange, and handles a substantial amount of portfolio transactions for customers around the world.

In Germany, Dresdner Bank's activities are typically those of a *universal bank*. It transacts all manner of financial business, and offers its private and corporate customers a comprehensive range of banking services.

In addition to deposit taking and lending, Dresdner has traditionally figured prominently in securities business and money market, foreign exchange and precious metals trading. It also enjoys world-wide standing as an underwriter. A substantial proportion of the Bank's business volume is derived from its international operations.

Dresdner Bank is represented in over 50 countries, including all the world's major financial centers. In 1973, Dresdner Bank opened the first representative office of a Western European bank in Moscow. It has also opened representative offices in Poland, Czechoslovakia as well as a subsidiary bank in Hungary.

In the course of the recent developments, Dresdner Bank was the first German bank to establish an office in the German Democratic Republic, in Dresden, its birthplace. By the end of 1991, Dresdner Bank will have a network of over 170 offices in what was East Germany. □

EM INDUSTRIES INC.

EM INDUSTRIES (EMI) is the U.S. associate of E. Merck/Darmstadt, with a sales volume of $170 Mil. and about 850 employees. It is a diversified specialty chemicals manufacturer with locations in Hawthorne, NY; Gibbstown, NJ; Savannah, GA; Cincinnati, OH; Port Washington, NY; Bayonne, NJ; and North Brookfield, MA.

Many of EMI's businesses are in *High Tech areas*. EMI is a leader in pearlescent pigments for automotive use (metallic colors), industrial applications (plastic compounds, wallpaper, printing inks, textile coatings) and decorative cosmetics (EMI's Rona group helps formulate compressed powders and nail polish). Excimer lasers and high energy physics detectors use single crystals grown by EMI's Optovac group. Vacuum deposition materials are used for metallic coatings on different surfaces. Liquid crystals are incorporated into displays and indicator panels.

A second major focus for EMI is the *Health Care sector*: EMI supplies vitamins and pharmaceutical raw materials to the drug manufacturers. EMDS' clinical chemistry reagents help diagnose health problems. EMI's Center Labs group provides immunization agents and devices to the asthma and allergy practice. In addition, EMI is active in clinical research and testing of new drugs for later registration with the Food and Drug Administration.

Thirdly, EMI is an important supplier to the *Science community*: Our EM Science group offers a wide spectrum of products to researchers and quality control chemists in government, industry, as well as in the educational field. The EM Science catalog ranges from classical laboratory reagents to innovative materials for sophisticated laboratory techniques, such as chromatography or electrophoresis.

EMI's wide variety of businesses adheres to a central and uniform *management philosophy* and to a clear set of *values*: EMI's orientation is towards its people—with emphasis on service, teamwork, creativity and mutual respect—and towards the quality of its work—with a focus on excellence, safety, integrity, and care for the environment. EMI's people and these values certainly make a major contribution to our success as a company. □

EIMELDINGEN

EIMELDINGEN Corporation, a wholly-owned subsidiary of Maschinenfabrik Eimeldingen in Eimeldingen, West Germany, was founded in 1979 in Indianapolis, Indiana. Eimeldingen is one of the world's largest manufacturers of ultra-precise rotary machine tool tables. . .dividing, graduating and coordinate tables . . . required for extremely accurate machining, measurement and inspection.

Eimeldingen's international reputation for extreme precision is acknowledged and utilized by industries manufacturing aerospace equipment, aircraft, helicopters, automobiles, generators and turbines.

This prestigious international company was founded in 1932 near Stuttgart as a designer and manufacturer of automatic transfer machines. In 1945, a new production facility built in Eimeldingen, West Germany, started manufacturing vises; various tilting and rotary movement workholding pieces— necessary for a retooling industrial nation— resulted from these original vises.

In the 50's when industry required precision measuring and inspection tables, Eimeldingen designed and manufactured rotary and rotary tilting tables to meet these requirements. In the early 1970's, Eimeldingen's rotary machine tool table was inter-faced with other industrial operations, including numerical control capabilities. This served to open the OEM market for Eimeldingen precision rotary tables, which were being widely used for production purposes; since 1975, nearly 80% of all Eimeldingen products have been used in a production function, with sales to all Western countries.

Eimeldingen Ltd. was opened in 1977 as a sales and service facility to accommodate Great Britain and the British Isles. Eimeldingen/Indianapolis was established in 1979 to provide the international firm with yet another manufacturing facility. Eimeldingen/Indianapolis designs and builds precision machine tool tables in many different configurations, palletizing components and systems for automated parts loading and positioning, air bearing rotary tables for micro-machining and parts inspection, air bearing multi-axis superfinishing systems for micro-machining applications, and special application equipment and systems to solve complicated manufacturing operations.

SIP machining centers—recognized worldwide as the leader in precision machining centers—in combination with technically qualified design and electronics personnel make it possible for Eimeldingen/Indianapolis to provide the United States market with the same precision industrial manufacturing equipment as that built in Europe. □

'PRECISION'
EIMELDINGEN
INDIANAPOLIS
The name 'EIMELDINGEN' has been synonymous with 'precision' production instruments and equipment ...worldwide ...for over thirty years. Some industries that depend upon EIMELDINGEN 'precision' for inspection, manufacturing and quality control include aerospace, automotive, electronics and machine tools. When your production application demands the ultimate in dependable, repeatable 'precision' ...specify 'EIMELDINGEN'.
MACHINE TOOL TABLES
EIMELDINGEN precision machine tool tables include 8" diameter units ...airbearing rotary tables for micro-machining and inspection—with measuring accuracies to millionths of an inch ...medium-duty tables ...and, heavy-duty tables to 100 inches in diameter—with loading capacity to 265,000 pounds. Tables are available as horizontal, vertical or in combination configurations ...with fully-indexing or traveling capabilities.
PALLETIZING SYSTEMS
EIMELDINGEN palletizing components and systems provide precision workpiece positioning and automated production flow for machining operations. Components interface directly with new and most existing horizontal and vertical machining centers and VTLs. Customers work with a single, experienced source for the design, fabrication and installation of a turn-key palletizing system; customers are assured of component compatibility for future system integration and expansion of single or multiple machining stations.
MICROPRECISION SUPERMACHINING CENTERS
EIMELDINGEN NC Supermachining Centers can precisely machine flat mechanical parts and electronic components to a mirror finish on two sides ...simultaneously. The multi-axis Center utilizes airbearing spindles in the vertical and horizontal planes to machine and finish all sizes and shapes of intricate parts ...including aspherical. Supermachining Center options include airbearing horizontal rotary tables and airbearing X-Y slides to meet specific customer application requirements.
SPECIAL APPLICATION SYSTEMS
EIMELDINGEN application expertise and design/engineering capabilities solve some of industry's more complicated and unique production automation problems. One example is this tomography system designed, engineered and fabricated for an aerospace client. The system utilizes x-ray technology for the non-destructive testing of structural integrity on large workpieces. Overall, the system is precise to 5 arc seconds f rotation and to 40 micron meters in elevation and translation.
EIMELDINGEN CORPORATION
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FAX: (317) 632-8594
PHONE: (317) 636-0666

ERICHSEN

Brand names don't come out of the blue.

Since 1910 ERICHSEN has been producing a wide range of force measurement systems and materials testing equipment.

Long years of experience have made Erichsen famous throughout industry and in government agencies—wherever precision is a prerequisite.

Product Range

Our range of force measurement devices and materials testing systems includes:

- Load cells of various types with ranges of 1 N on up to 40 MN
- Torque measurement devices with ranges of 10 Ncm to 5,000 Nm
- Display units and evaluation electronics
- Universal testing machines for tension, compression and bending tests according to DIN and international standards

- Spring testing machines
- Screw and torsion testing stands
- Force standard systems
- Software systems for the aforementioned devices and testing equipment
- Software for operation in conjunction with QC systems

Applications

Erichsen force measurement devices are used throughout industry for measurement, monitoring and testing of forces. We supply devices for lowest levels of force in fine mechanical applications as well as for very large forces in heavy industry (in the Mega-Newton range).

Another major application is container weighing, especially in the chemical industry.

Erichsen universal testing machines are used throughout research and development as well as in quality control of materials and parts. They are a reliable component of many QC systems according to DIN ISO 9000.

A wide range of user friendly software packages allows application in all branches of industry, i.e., the automobile industry and suppliers of automotive parts, chemical industry, manufacturers of plastics, and throughout mechanics and engineering.

Erichsen screw testing stands for measurements of friction coefficients and vibrational testing are applied mainly in the automotive industry, by space and aerospace suppliers and screw manufacturers.

Force standard systems are suited to the special needs of government institutions and those companies who need to be able to perform force calibrations with the highest level of accuracy (DKD and WECC accredited).

R & D Perspective

Further development of intelligent electronics and update of user software.

The calibration of our force measurement systems and testing machines using government certified devices ensures traceability of the quantity force to the PTB. This is of utmost importance for all users in light of the DIN ISO 9000 quality assurance standard.

Furthermore, an ever widening network of distributors throughout the world allows us to keep in touch with our customers making sure that their problems get solved on site.

Company Details

Address:

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D-5600 Wuppertal 11
Tel: 0202/ 73 90 8 - 0
Fax: 0202/ 73 90 8 - 80
Tlx: 8591631

General Manager: Klaus Havemann

Founded: 1910

Sales branch:

A.M. Erichsen Vertrieb GmbH
Wuppertal

Subsidiaries:

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ERNST & YOUNG

ERNST & YOUNG is one of the largest professional services firms worldwide. Internationally, we employ over 67,000 people in more than 650 offices in over 100 countries. The firm provides integrated accounting, tax, and management consulting services to businesses of all sizes in every industry—from the world's largest multinational corporations to individual entrepreneurs. Ernst & Young's professionals, experienced in identifying and addressing emerging business issues, enhance our clients' ability to compete in today's increasingly complex business environment.

In Germany, our 30 offices include five offices serving former East Germany in Berlin, Dresden, Leipzig, Schwerin and Erfurt. We have 2,200 employees in Germany prepared to serve companies on all audit, tax, management consulting, legal and insurance matters.

Ernst & Young has established a German Desk in New York with experienced U.S. and German professionals—who speak German and have extensive experience addressing the specific needs of German businesses operating in the United States.

Our services are tailored to meet the needs of German investors. Specific services commonly provided by our team include:

- Acquisition and joint venture due diligence
- Start-up Assistance
- International Tax Structuring
- Expatriate/Inpatriate Tax
- Conversion of U.S. to German Format (HB II)
- Manufacturing Consulting

Senior members of our German team in the United States for you to contact are:

- John Curtis, CPA (617) 859-6664 or
- Ray Haas, JD/CPA (212) 773-2700
- Klaus Ossig, WP/Stb (212) 773-5245
- Ralf Müller, Stb (212) 773-5250

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787 Seventh Avenue
New York, NY 10019
Telefax: (212) 773-5119 □

Euro Lloyd

The demand for globalized travel service dictates an increasing need for international and worldwide partnership. EURO LLOYD, a full-service travel agency offering a complete range of services to corporate business accounts, groups and individuals, is meeting that need both in the U.S.A. and in Germany.

The upcoming deregulation of Europe in 1992 and the opening of the Eastern market prompted the company to ally themselves with Euro Lloyd of Germany on an equal basis. Euro Lloyd has 30 sales offices in Germany with its Head Office located in Cologne. It is a full-service organization providing quality travel management services. Euro Lloyd is owned 85% by a major European Airline in partnership with a major travel agency chain which has 15% interest with a combined business volume of U.S.$ 300 million.

This partnership results in a very solidified travel service concept, and further enhances the company's services in the travel market to Central Europe and beyond for the 1990s.

The benefits of the global partnership will ultimately result in a broader palette of services to their customers. Euro Lloyd already has opened offices in East Berlin, Dresden and Leipzig to serve the Eastern European market.

Most meaningful, at a time when many U.S. companies are looking for an international travel agency that can help them to expand their global reach, Euro Lloyd is an international specialist in travel and always has been.

In North America they will continue providing quality travel services for corporate

business accounts as Euro Lloyd Travel, with 11 full service branch offices across the U.S., 18 inplants, and future plans for opening new offices in Boston, Dallas, Houston, Miami, Washington, D.C., Montreal and Toronto.

Euro Lloyd services individuals and groups, addressing corporate and administrative travel needs as well as vacation, special interest and educational travel. And, every Euro Lloyd office has the buying power to secure accommodations and other travel arrangements at the best possible rates. Travelers benefit financially from competitive rates and from advanced notification of special discounts and consolidator airfares.

Their personal approach combines experienced personnel who organize your trip every step of the way, and the most up-to-date computerized system. For you this means the best rates, routes and schedules...both worldwide and domestic.

Rounding out its travel services, the company also operates Euro Lloyd Tours, a wholesale tour division, specializing in individual and group leisure travel arrangements to Central Europe. And, Euro Lloyd is a full partner in ProFairs which provides quality travel services to U.S. corporations interested in visiting or participating in international trade fairs in Germany. □

OVER 100 YEARS
AND ROLLING STRONG.

FAG

FAG Bearings Corporation

911 HOPE STREET
STAMFORD, CT 06907

FAG

FAG BEARINGS CORPORATION is an international organization whose trademark is a worldwide symbol of quality and dependability in the design and manufacture of bearings in all sizes and configurations. FAG is recognized as the signature of one of the world's oldest and largest manufacturers of precision ball and roller bearings. Since 1883 FAG has led the way in the development and refinement of bearing design and technology. Today, FAG employs over 30,000 people in branches and affiliate plants in the U.S.A., Canada, Brazil, Germany, Austria, Switzerland and Portugal. There are, in addition, FAG sales and service offices and distributors in more than 100 countries.

FAG headquarters in the U.S.A. are located in Stamford, Connecticut, where a full complement of administrative, marketing, engineering and distribution personnel service the American market. FAG also has distribution centers in Memphis, Tennessee and Los Angeles, California. The chief U.S. production facility is in Joplin, Missouri. After undergoing extensive expansion, the Joplin plant has been producing an extended range of bearing types in sizes hitherto never produced in the U.S. FAG's capabilities in bearing design and manufacturing are second to none. From automobiles to rolling mills, machine tools, to spacecraft, FAG is ready to provide bearings, housing, accessories and components, whatever and wherever the need. □

FRANKFURT AM MAIN

Germany, with a population of nearly 80 million people and the fourth largest GNP in the world, is one of the leading economies in Europe.

At the heart of Germany's dynamic economy is FRANKFURT AM MAIN, the nation's financial, commercial and distribution center. There are 417 credit institutions in Frankfurt, and more foreign banks than in any other Continental European city—some 270, including 38 American banks.

Frankfurt is also the home of the Deutsche Bundesbank, Germany's central bank, as well as the nation's biggest stock exchange.

It is a city with a highly sophisticated infrastructure providing all the facilities nec-

essary for innovative decision-making: adequate space; comprehensive legal, tax and financial services; the full range of communications capabilities; a highly skilled workforce; vast market potential; the most modern transportation facilities; a business atmosphere that rewards resourcefulness.

Electronics, chemicals, and engineering are the main manufacturing industries. A healthy mixture of manufacturing and service industries combine with the main service sectors of trade, transportation, communication, banking, finance and insurance to comprise Frankfurt's highly diversified economy.

Frankfurt is the economic and distribution center of the Rhine-Main Region, which has a population of nearly 3.6 million and a workforce of 1.9 million. It is one of the largest urban concentrations in Germany and one of the fastest growing areas of Western Europe.

Finally, Frankfurt is clearly the transportation hub of Germany. Its cental location puts it in the mainstream of the country's efficient air, rail, road, and waterway networks which, in turn, provide direct, fast access to all key domestic, European and overseas markets. □

Frenkel & Co. Inc.

FRENKEL & CO., INC. has been a leader in the field of Commercial Insurance and Risk Management for over one hundred years.

We have enjoyed a healthy growth based on a philosophy of being large enough to provide an in-depth approach to corporate insurance problems and small enough to do this on a personal basis. Our many long-term relationships are testimony to the bonds of trust that have been formed through years of dependable service.

Our Risk Management professionals analyze and evaluate exposures to loss and design comprehensive insurance packages specifically tailored to our individual client's needs. We provide safety and fire prevention consulting services. We work closely with our clients to reduce potential loss to property and to personnel. Our Claims Division facilitates prompt and satisfactory settlement of claims. Rounding out the full range of brokerage services are experts in Employee Benefits and Estate Planning.

Through a network of domestic and foreign insurance underwriters, we arrange protection at competitive costs for exposures covering all facets of property, casualty, marine insurance and surety.

Insurance requirements of American subsidiaries of German companies require specialized, in-depth knowledge of German business practices, needs, and relationships as well as an understanding of the insurance marketplace in Germany.

We are particularly proud of our association with our many German-American clients. We can work directly with U. S. subsidiaries of a German parent and equally well in conjunction with a captive broker, risk manager or an independent correspondent broker located in Germany.

You can contact us by calling or writing Mr. Martin L. Elkinson, Executive Vice President, Frenkel & Co., Inc., 123 William Street, New York, New York 10038, telephone (212) 267-2200. □

FRANKFURT

WHY COMPANIES ON THE MOVE PREFER FRANKFURT

Companies on the move internationally know that choosing the right locations abroad is a vital element of success.

That's why a large number of corporations from around the world have selected Frankfurt, Germany's financial, distribution and commercial capital.

The city's strategic position, highly developed infrastructure and superior communications and transportation facilities make Frankfurt the obvious choice.

With its large business and banking community, Frankfurt is a city where innovation flourishes and initiative and resourcefulness are rewarded. A place where decision-making comes naturally.

Located in the heart of Europe, Frankfurt provides fast and easy access to a huge and lucrative marketplace: all major Western European cities and newly emerging economic centers in Eastern Europe.

If your company is on the move internationally, take a close look at Frankfurt. Make the first move today by writing for a complimentary copy of our information brochure "Frankfurt. Preferred by decision-makers."

Wirtschaftsförderung Frankfurt GmbH
Business and Economic Development Corp.
City of Frankfurt
Grüneburgweg 102
D-6000 Frankfurt am Main 1 · Germany
Telephone: 69-212 36-226, Telex: D 4 170 089
Telefax: 69-212 36-230

Insurance coverage remains an essential production factor in modern industry. It results in a reduction of potential risks and allows for professional risk management. The larger and more diversified a modern corporation becomes, the more necessary it is to develop policies which are tailored to the specific requirements of the individual enterprise. Technological progress leading to an increase and a greater concentration of values, as well as changing patterns of risk, require today's enterprises to constantly adapt their insurance protection to meet these complex and ever-growing risks. Furthermore, corporate structures and activities in many industries have assumed an international dimension. This situation requires professional risk management, as well as an insurer with underwriting expertise and an international network.

GERLING-KONZERN has been a specialized insurer of industrial risks for more than eighty years, breaking ground for others in this field. Because of its innovative power, Gerling-Konzern today is a recognized expert insurer of industrial risks, not only in Germany but worldwide. It provides solutions to all coverage problems of industry and entrepreneurs. With 16 insurance and reinsurance companies, the Group operates worldwide and is represented in 24 countries. Collectively, the Group reported for 1990 a gross premium of DM 8.2 billion (U.S. $5.4 billion), invested assets of DM 23.2 billion (U.S. $15.3 billion) and a total of 9,400 employees.

For more than thirty years the Group has expanded its foreign activities as a primary insurance company and as a reinsurer in all major industrialized countries. Its international structure makes the Gerling organization particularly suitable for the handling of insurance needs of companies with international activities. Local experts in foreign subsidiaries and service companies are familiar with the requirements and customs of the respective markets.

The insurance needs of our U.S. customers are managed by:

Gerling America Insurance Company
717 Fifth Avenue
New York, NY 10022
Tel: (212) 754-7500
Fax: (212) 319-5626

Please contact Mr. Lothar Riedle, Executive Vice President, for further information. □

HLT

The HLT group of companies, responsible for promoting business in Hessen, consists of the Wirtschaftsfoerderung Hessen Investitionsbank AG Hessische Landesentwicklungs- und Treuhandgesellschaft, and the HLT Gesellschaft für Forschung Planung Entwicklung mbH.

For over 40 years, HLT as the official body responsible for promoting business in the state of Hessen has been assisting investors from within Germany and abroad to help establish successful operations in Hessen. The service offered for the promotion of the economy in Hessen and provided by the Investitionsbank AG, an institution with special tasks of this kind, is both confidential and free of charge.

The Investitionsbank AG with its economic promotional program deals with applications for state financial aid and administers state loans. This also includes financial assistance in the case of technological developments and where modern environmental techniques are applied. Favorable terms can be offered in such cases.

HLT runs an information office, an EC advisory center, and at the Airport-Center in Frankfurt a business information service which furnishes information from data banks on research, technology and business to assist small and medium-sized companies. In addition to technology transfer agencies at the universities in Hessen, these data banks are found to be of considerable advantage for business in the state.

The associate company, HLT Gesellschaft für Forschung Planung Entwicklung mbH, carries out business research and regional studies and at the same time assists companies in decisions affecting the setting up of new businesses or relocating them. Their principal activities concern long-term forecasts and analyses of different branches of industry and commerce. □

HANIEL

HANIEL is an internationally engaged service group. Eleven divisions operate autonomously in their respective markets, controlled by the holding company Franz Haniel & Cie. GmbH, based in Duisburg-Ruhrort. 235 years after its founding, Haniel employs approximately 30,000 people worldwide.

Services with a quality guarantee form the overall concept of the various businesses: pharmaceutical wholesale and production of generic drugs, mail order distribution, express delivery service, liner shipping, recycling and processing of raw materials for the stainless steel industry, washroom service and supplies, environmental restoration, inland shipping, production and wholesale of building materials, food wholesale and retail in the United States.

Sales in 1990 amounted to DM 15.2 billion (1989: DM 13.8 billion). Net profit after tax remained at a high level of DM 218 million (DM 270 million) as well as Cash-flow (DM 521 million, 1989: DM 608 million). After a dividend payout of DM 36 million (DM 24 million), the firm's profit traditionally is retained to strengthen its equity capital base (33 percent of the balance sheet total of DM 5.4 billion).

In the financial year 1991, Haniel has budgeted over DM 900 million for investment (1990: 1,100 million) with a view toward systematically supporting an expansion of its markets, at home, especially in East Germany, and abroad. □

Hapag-Lloyd

HAPAG-LLOYD AG is the product of the merger of two shipping companies with long traditions, the Hamburg-America Line (founded in 1847) and Norddeutscher Lloyd (founded in 1857). The group is thus backed by over 140 years of experience in international transport. In the United States, it is represented by its North American subsidiary Hapag-Lloyd (America) Inc., Staten Island, NY.

Nowadays, Hapag-Lloyd, as one of the world's largest shipping companies, offers its clientele a thorough house-to-house transport chain. An efficient fleet of 21 modern container vessels serves over 140 ports direct in a network of worldwide liner services, whilst over 500 sales locations provide immediate contact with the clients. Twenty-five sales offices are spread throughout the United States alone.

Besides container transport by land and sea, the tourism division is the group's second core business. This comprises the Hapag-Lloyd Flug, a leisure airline with one of the world's most modern aircraft fleets; Hapag-Lloyd Cruises, operating the largest cruise ship under the German flag; the M/V

Europa; and the Hapag-Lloyd Travel Agency Chain, one of the market leaders with freight forwarding branches throughout the Federal Republic of Germany, Austria, Luxembourg, Switzerland and the United Kingdom.

The activities of the Hapag-Lloyd Group are completed by three other divisions: Forwarding, Port and Coastal Services and Container Leasing. These underline Hapag-Lloyd's position today as a dynamic and versatile transport group with truly international operations.

For further information, please contact:
Hapag-Lloyd (America) Inc.
One Edgewater Plaza
Staten Island, NY 10305
Tel: (718) 442-9300
Fax: (718) 390-4280 □

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Helaba Frankfurt
Hessische Landesbank -Girozentrale

HELABA FRANKFURT ranks among Germany's major banks with total business volume in excess of DM 88 billion at the end of 1990. Headquartered in Frankfurt, Germany's financial center, the Bank is one of the largest issuers of bank bonds and notes with a total of more than DM 32 billion outstanding. Helaba's Eurobonds have been rated AAA/Aaa by Standard & Poor's Corporation, Moody's Investors Services and IBCA Banking Analysis. Its US-Commercial Paper as well as its Euro-CD-program have been rated A1+ and P-1 rsp.

The Bank concentrates on wholesale financial services offering comprehensive banking facilities for multinational corporations, central banks, public sector entities, and other financial institutions.

Helaba Frankfurt has branch offices in London, New York and Grand Cayman and wholly-owned subsidiaries in Luxembourg, Dublin (Helaba Asset Management/Helaba International Finance plc.) and Amsterdam.

The bank's international service facilities include:

- International financing with special emphasis on medium to long-term fixed-rate loans as well as short and medium-term Euro-loans to German customers abroad and multinational corporations in Germany.
- Export financing, including long to medium-term export financing at fixed interest rates, short-term import and export financing at domestic and Euromarket rates as well as *à forfait* transactions.
- Foreign commercial business, comprising international payments, clean and documentary collections, letters of credit, letters of guarantee and foreign trade financing.
- International capital market activities including Eurobond issues, lead-management of bond issues of the state of Hesse, participation in national and international stock and bond syndicates, trading in bonds and notes, equities brokerage service, including investment counselling for national and international investors.
- Marketmaking in spot and forward-foreign exchange for its worldwide correspondents, dealing in Eurocurrency deposits, future rate agreements, options and interest rate futures, currency and interest rate swaps.
- Advisory services for the Bank's corporate customers and the Hessian Savings Banks in all foreign exchange and Eurocurrency deposit related products. □

Hermes
Kreditversicherungs-AG

HERMES was founded in Berlin in 1917 as a specialized company for all lines of credit, fidelity and guarantee insurance. With registered offices in Hamburg and Berlin, Hermes is the leading credit insurer in Germany and one of the biggest in the world.

Main shareholders are Münchener Rückversicherungs-Gesellschaft, Munich and Allianz AG Holding, Munich.

Commercial Credit Insurance covers risks in connection with short-term accounts receivables resulting from supplies of goods and services.

Export Credit Insurance provides cover for companies engaged in export transactions. It protects against loss of receivables in cases where foreign customers are unable to pay for financial reasons.

Investment Credit Insurance is designed for receivables arising from the sale of capital goods and from leasing transactions.

Consumer Credit Insurance protects banks against risks arising from instalment credits and current account credits granted to private customers. It also offers individual cover

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Hermes
Kreditversicherungs-AG

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facilities for banking-type finance activities, e.g., those operated by credit card organisations and professional fee clearing centres.

Computer Fraud Insurance covers direct economic loss due to manipulation, destruction and theft in connection with data processing. It is a special form of *Fidelity Insurance*, which offers protection against losses due to embezzlement, breach of trust, theft, forgery, fraud and other unlawful acts by the company's own employees.

Guarantee Insurance provides and procures, at the request of German companies or their foreign subsidiaries, guarantees and different types of *Bonds*—such as bid, performance, advance payment and customs bonds—for contractual and legal commitments in favour of domestic and foreign beneficiaries. It requested and provided for by contractual regulations and domestic practices, the bonds will be deposited on a worldwide basis also in cooperation with local banks, insurance or bonding companies.

Mandatary Business: By order and for the account of the Federal Government the company, as mandatary, handles export credit guarantees and exchange risk cover. The Federal Government holds no interest in the company's capital. □

HILLE & MÜLLER is one of the leading cold rolling mills in the world. The company employs more than 2,200 people in 6 works in Germany and in the United States of America. Among the regular customers in many parts of the world are companies of different industrial branches, such as household industry, motorcar industry, electrical industry or construction industry.

Our range of products is, in the first instance, determined by cold rolled steel and by cold rolled steel strip electrolytically plated or clad with non-ferrous metals. The non-ferrous metals we are using are nickel, chrome, brass, copper, tombac, zinc and aluminium .

The aim of the company is to produce quality of the highest demands. Hille & Müller and the associated companies are well known as producers for cold rolled steel strip and electrolytically plated cold rolled steel strip with bright glossy surfaces and closest tolerances. The application of our materials helps to save heavy expenditure on piece-part plating or purchase of solid non-ferrous metals. During the almost 100 years of its existence, many new products have been developed by our company. The know-how collected during that time and the constant increasing of our production programme provide the answers to the problems and requirements of the metal working industries.

Within Hille & Müller innovation teams up with tradition. The company was founded in Großschönau/Sudentenland, where, in 1885 the first mill was established. Already in 1895 the founders of the company, in the previous Porschdorf works near Dresden, successfully performed surface finish of sheets. Another mill was founded in 1905 in Düsseldorf-Reisholz, where today the headquarter of the group is located.

Another important date within company history is the year 1974, when Hille & Müller extended their field of operation over the Atlantic and took over Rafferty-Brown, Waterbury, Connecticut, USA. This proved to be an important step. Only one year later the Thomas Steel Strip Corporation, Warren, Ohio was acquired, which is a mill with a product and market structure similar to that of the main works.

The purchase of the Westfalia GmbH in Hilchenbach in 1976 was made in an effort for diversification and in order to open a door into metal working. The Trierer Walzwerk GmbH, Trier, which primarily is producing clad cold rolled steel strip with non-ferrous metals, was bought in 1982, completing our line of products.

With works in Germany and in the USA, the Hille & Müller organization possesses the most modern production facilities. A worldwide sales network assures direct presence in the most important markets. □

HOESCH

HOESCH was founded in 1871 as an iron and steel mill. Today Hoesch AG is a major force in the world of steel manufacturing and coated steel products, processing and industrial engineering, trading and service operations, automation and systems engineering. One of West Germany's leading groups, its turnover in 1990 totalled DM 16 billion. Its workforce now totals 56,000. The group exports to all parts of the world.

We support free world trade—as the world is our market. This commitment is a principle of our group philosophy.

Within the framework of our international strategy, we own a broadly based network of manufacturing plants and trading companies, both at home and abroad—such as in the United States of America.

Hoesch Manufacturing Companies in the U.S.

- Applix Inc., Westboro, MA (15%)
  Software for office automation
- Hoesch Suspensions Inc., Hamilton, OH
  Springs for the automotive industry
- Hoesch Tubular Products Corp., Houston, TX
  Finishing of oil country tubular goods
- O&K Escalators Inc., Newport News, VA
  Escalators
- O&K Trojan Inc., Batavia, NY
  Wheel loader
- Rotek Inc., Aurora, OH
  Large antifriction bearings
- Schroff Inc., Warwick, RI
  Packaging systems for electronic industries

Hoesch Trading Companies in the U.S.

- Bilstein Corp. of America, San Diego, CA
  Shock absorbers
- Hoesch America Inc., Atlanta, GA
  All sorts of iron, steel and metal
- mbp Software and Systems Technology Inc., Alameda, CA
  Software
- S+S electronics Inc., Oakdale, PA (33.75%)
  Electronic systems for the automated stamping process

Hoesch—a group of companies operating worldwide. □

PHILIPP HOLZMANN
Aktiengesellschaft

The company was founded in Germany more than 140 years ago and has been active in all areas of construction continuously since that time. Soon after HOLZMANN's formation, the company opened branches nationally and began construction activities overseas. In 1917 the company was incorporated with a controlling interest of the Deutsche Bank AG.

During recent years Holzmann has developed into a diversified conglomerate by establishing and acquiring German and foreign holding companies. In addition to the traditional general construction work, the main areas of activity are systems engineering, building finishes, civil engineering, road construction, energy and environmental technology, equipment installations and maintenance and operation of facilities.

Headquarters are in Frankfurt/Main. From here all national branches and foreign projects of the parent company are controlled. Besides the traditional activities in West Germany, Holzmann has developed diversified

activities in the new East German States. Holzmann has its own companies in many countries throughout the world, including Australia, Finland, France, Austria, Great Britain, Italy, Liberia, The Netherlands, Saudi Arabia, Switzerland, Spain and South Africa.

In the United States, Holzmann is represented by Philipp Holzmann USA, Ltd. and its subsidiary, Jones Group, Inc., both located in Charlotte, North Carolina. Lockwood Greene Engineers, Inc., another Holzmann affiliate, is based in Spartanburg, South Carolina, and Mark III, Inc. in Atlanta, Georgia. The U.S. companies are represented with offices in major metropolitan centers throughout the country.

A number of Holzmann's American operating companies, J.A. Jones Construction Company, Crow Construction Company, Chas. H. Tompkins Co., Metric Constructors, Inc., and Tiber Construction Company operate as both general contractors and construction managers. They offer, together with the other Jones Group companies, a diversified program for buildings and installations; real estate services, including building management and project development; and lignite mining as well as technical support and training for the power industry.

Lockwood Greene Engineers, Inc. specializes in design and engineering of industrial installations and buildings, offering complete service packages which also include the applicable production processes and material handling.

In 1990 the total revenue of the Holzmann Group was 9.3 billion Deutsche Mark of which 1.7 billion dollars was contributed from the U.S. operations. □

INA BEARING COMPANY, INC., the second largest needle bearing manufacturer in the United States, is part of a worldwide organization known for the quality and advanced technology of its needle roller and other anti-friction bearings.

From its small beginnings in 1946, the company has grown rapidly by pioneering scores of new products. INA Needle Roller Bearings have provided designers in many industries, particularly the automotive and machine tool industries, with a solution to their problems.

Over the years, the original range of INA Needle Bearings has been extended to encompass a much wider variety of rolling bearings. These include bearings for both light and heavy duty applications, as well as bearings for rotary and linear motion

Today, more than 23,000 INA employees throughout the world produce over 45,000 different types of rolling bearings, of which a high number are made to customers' individual requirements. Specifically, our product line includes a large variety of unit cages, shell bearings, needle roller bearings—radial and thrust, combination bearings, precision ground bearings, ball bearings, linear motion bearings and slewing rings.

INA Rolling Bearings are manufactured in 26 plants worldwide. A network of 24 INA companies and 30 agencies provide reliable service and excellent communication with our customers.

All worldwide market research, together with production and application experience, is collated at the parent company in Herzogenaurach near Nuremberg. Thus, a continuous interchange results between the various INA locations and ensures that the latest technology is shared worldwide. This is reflected in the advanced state-of-the-art of all INA products.

In the United States, INA Bearing Company, Inc. was incorporated in September 1969. Today, INA operates five manufacturing plants in South Carolina. Corporate Offices are located just outside Charlotte, North Carolina, in Fort Mill, South Carolina:

INA Bearing Company, Inc.
308 Springhill Farm Road
Fort Mill, SC 29715
802/548-8500 □

JAUCH & HÜBENER
INSURANCE BROKERS

JAUCH & HÜBENER was founded in 1919 in Hamburg. Today, with a staff of more than 1,200, the group represents the largest insurance broker in Germany and offers service in the area of insurance retail brokerage, risk management consulting, reinsurance brokerage, and employee benefit consulting. Jauch & Hübener has offices in Germany, Austria, Switzerland and Hungary.

Apart from the employees of the international departments in Hamburg, Mülheim, Frankfurt and Munich, Jauch & Hübener has German representatives in New York, Bangkok, Madrid, Paris, Singapore, Sao Paulo and Caracas.

The international departments are staffed with specially trained employees, all of whom have gained experience overseas.

Jauch & Hübener is a member of UNISON, a worldwide network of independent insurance brokers. In the United States, Jauch & Hübener with its representative works through Johnson & Higgins, one of the largest insurance brokers, with over 50 offices throughout this country.

Johnson & Higgins has established a team within the New York office focussing on the specialized requirements of German investors throughout the United States. Today Johnson & Higgins together with Jauch & Hübener services in excess of 100 German subsidiaries in the United States.

Jauch & Hubener's representative in New York, Ms. Corinna Kratz, complements the activities of this team and can be reached at:

Johnson & Higgins
125 Broad Street
New York, NY 10004
Tel.: (212) 574-7765
Tlx: 6720134
Fax: (212) 574-8993 □

KPMG Peat Marwick

KPMG PEAT MARWICK is the U.S. practice of KPMG (Klynveld Peat Marwick Goerdeler), the leading international firm of accounting, auditing, tax and management consulting services in the world. With its access to KPMG's unrivaled multinational network, the firm's reach and market share is second to none. KPMG currently operates over 800 cities in 123 countries worldwide, and employs over 75,000 professionals worldwide. One third of those professionals are located in North America and one third are located in Europe. In Germany, KPMG has over 4,000 professionals and support staff.

KPMG in the U.S. combines its geographic reach with functional expertise to address the business needs of many types of industries. Additionally, the firm has developed special services designed to meet the needs of international companies who have invested in the U.S. European investment represents the largest percentage of foreign investment in the U.S. The increasing European involvement in the U.S. will take on new dimensions as the European Community drops trade barriers among its member countries as part of the process. KPMG is uniquely positioned with leading firms in Europe and North America to help clients with businesses on both sides of the Atlantic. Our new East European offices in the key East European countries offer our clients strong support in these new areas.

Several years ago, KPMG formed its German practice which now comprises more

than two dozen qualified German nationals, including both certified public accountants and tax professionals. Individually, and using the worldwide resources of KPMG, our German practice offers clients a full spectrum of general business, financial, tax and legal advisory services. Today the KPMG German practice serves an average of 200 clients annually, including prominent industrial firms, insurance companies, and banks. While most of these clients are subsidiaries of German companies, several are U.S. firms considering investment in Germany.

Clients turn to KPMG with increasing frequency for advice on a host of matters including those related to acquisitions and investments in both parts of the united Germany and the United States. Our professionals are able to evaluate and explain the business implications of the two countries' differing accounting, tax and legal systems. Working with a team of U.S. and German professionals, we take an active role in every phase of the investment process, from developing negotiation strategy to shaping the transactions's terms. Our expertise in performing due diligence reviews and appraisals is of special importance to German companies who are unfamiliar with the U.S. market. The conversion of financial statements according to German accounting legislation for German consolidation purposes is another area of our expertise.

The German practice also provides valuable assistance to German companies and other interested parties through information and educational programs. These include seminars on accounting and tax regulations laws, held in Germany as well as the United States. The German practice also publishes a quarterly newsletter, in German, on current U.S. accounting, audit and tax developments. Our subscribers include German executives of U.S. subsidiaries of German companies, as well as executives of companies in Germany.

To learn how KPMG might be able to help your company with its particular business needs and to subscribe to their newsletter, please contact either:

Mr. Hans-Jürgen Fahrion
partner-in-charge
(212) 872-3470

Mr. Hans Flick
tax consulting
(212) 872-6684

Mr. Jürgen Tschesnok
management consulting
(212) 909-5310

KPMG Peat Marwick
German Practice
345 Park Avenue
New York, NY 10154 □

K·S PROPERTIES

Kipp-Stawski is a major German commercial owner and shopping center developer; they are currently developing an office building in Eschborn/Frankfurt of 250,000 square feet.

K.S. PROPERTIES owns approximately 900,000 square feet of Class A commercial office space in New York City, and are currently developing a new 330,000 square foot office tower at Fifth Avenue and 46th Street in Midtown Manhattan.

Owners and developers in Germany for 40 years and in America for 20 years, the company maintains its commitment to value and quality. □

KEMPINSKI HOTELS

In response to rising international demand for Grand Hotels in the great European tradition, KEMPINSKI continues a global expansion program that envisages Kempinski Hotels in key cities throughout the world.

Kempinski Hotels cater to a clientele treasuring the flair and gracious Old World hospitality of the four great Kempinski Hotels in Germany, their classic charms linked with contemporary comforts and amenities in prime locations.

At *The Mansion Kempinski Bangkok* travelers will find a quiet yet central location with a modern business center.

The *Leela Kempinski Bombay* offers the idyll of a country estate in India's largest seaport city.

In the heart of the Argentine capital, life *à la Kempinski* awaits the traveler at the *Hotel Libertador Kempinski Buenos Aires*.

At *The Grand Kempinski Dallas*, travelers to the commercial capital of the American Southwest find a home away from home combining continental luxury and lifestyle.

One of the largest and best equipped hotels in the British Crown Colony is the *Hotel Furama Kempinski Hong Kong*.

The only Grand Hotel directly on the Bosporus—the *Ciragan Palace Hotel Kempinski Istanbul*—is joined with the reconstructed Ottoman *Palace of the Torches* (*Ciragan* in Turkish).

Checkers Hotel Kempinski Los Angeles midtown is just minutes from key businesses and the Convention Center.

The flair of European Grand Hotel living now belongs to guests of the *Campton Place Hotel Kempinski San Francisco*.

At the very center of Chile's capital is the exclusive *Hotel Plaza San Francisco Kempinski Santiago*, featuring 110 luxurious rooms and suites.

Meticulous details and consummate European style distinguish the *Sutton Place Hotel Kempinski Toronto*, prominently situated downtown.

Always popular with Americans is Munich's *Vier Jahreszeiten Hotel*. Staying here in the heart of King Ludwig II's domain is an American dream.

In Berlin, Germany's leading cultural center, the prestige address is the *Bristol Hotel Kempinski* on the Kurfuerstendamm—long the No. 1 choice of prominent personalities from the U.S.A.

Hamburg's *Atlantic Hotel Kempinski* debuted in 1909 for passengers of the great transatlantic luxury liners. Now Americans are rediscovering Hamburg as the modern-day continental capital of opera and ballet.

The *Hotel Gravenbruch Kempinski Frankfurt* has the oldest heritage. A one-time manor house, Gravenbruch was first mentioned officially in 1486. Only minutes from Frankfurt Airport, with easy access to Romantic Germany's top tourist attractions, this hotel has preserves the relaxed atmosphere of a fine old country estate.

Added convenience: as Lufthansa affiliates, all Kempinski Hotels can be booked together with the flight at any Lufthansa office. Or through Kempinski's New York office at 1640 Hempstead Turnpike, East Meadow, NY 11554 (Tel: 516-794-2670/2671 or 800-426-3135 toll free).

Welcome to Kempinski. □

Klockner MOELLER

Industrial Electrical/Electronic Controls & Systems

KLOCKNER MOELLER CORPORATION, a subsidiary of the Klockner-Moeller GmbH, headquartered in Bonn, is a recognized worldwide leader in the production of low voltage industrial electrical/electronic controls and systems. Combining over 90 years of experience with state of the art engineering techniques plus location in 78 different countries, Klockner-Moeller has established a field network guaranteeing worldwide product availability, service and engineering capability.

The *product range* of Klockner Moeller consists of a full line of electric and electronic controls for industrial automation such as:

Industrial Electronics, Programmable Logic Controllers
Contactors and Control Relays
Magnetic Starters: Combination & Reduced Voltage
Self-Protected/Combination Motor Starters
Pilot Devices, Indicating Lights
Limit Switches
Rotary Cam Switches
Manual Motor Protectors
Circuit Breakers, Miniature Circuit Breakers
Circuit Interrupters & Fusible Switches
Motor Control Centers
Pump Control Panels
Enclosures: Steel & Insulating

Klockner-Moeller USA has a nationwide network of distributors, sales offices and regional support centers containing everything needed to offer fast, local, expert assistance. Factory locations are in Atlanta, GA; Boston, MA; Charlotte, NC; Chicago, IL; Cleveland, OH; Detroit, MI; Fairfield, NJ; Houston, TX; Los Angeles, CA; Orlando, FL; San Francisco, CA; Seattle, WA; and Tulsa, OK. □

KRUPP

Renowned worldwide for excellence in many spheres of industrial activity, the FRIED. KRUPP GMBH group of companies is one of the 15 largest industrial concerns in the Federal Republic of Germany. As a German partner in American growth since 1948, Krupp has a longstanding commitment to serving the U.S. market.

Krupp operates many subsidiary companies in the USA:

- Krupp Industries, Inc., headquartered in Bridgeville, Pennsylvania, has offices in Baltimore, Maryland, and Houston, Pennsylvania, which offer a wide range of plant and equipment including: mining and bulkhandling systems, size reduction machinery, systems engineering, mechanical parking systems, mobile cranes.
- Krupp Plastics and Rubber Machinery Inc., located in Edison, New Jersey, offers advanced extrusion blow molding plastics machinery and stretch blow molding plastics machinery for PET containers. In addition, its Rubber Division, located in Kent, Ohio, supplies rubber and tire machinery.
- Polysius Corporation of Atlanta, Georgia, offers the latest technology available to the cement and mining industries in the North American Market.
- Krupp Wilputte Corporation, located in Bridgeville, Pennsylvania, has a wealth of experience in the design and construction of coke-oven plants, high-temperature hot blast stoves, coal by-product and gas treatment facilities, auxiliary machinery, gasification plant for solid and liquid fuels, and pollution control equipment.
- Werner & Pfleiderer Corporation, located in Ramsey, New Jersey, offers the American market machines, systems and complete plants for:
  Plastics technology
  -for the continuous production, compounding and pelletizing of all thermoplastic and thermosetting materials
  Food extrusion
  -for the production of starch, snacks, cereals, licorice and fruit gums.
- G + H Precision Machinery, Wayne, New Jersey:
  -Rubber processing technology.
- Gemini Bakery Equipment Co., Philadelphia:
  -Bakery technology.

DANK

The German-American National Congress works to:

- Represent, as a nationwide organization, all German-Americans on the national level.
- Foster friendship between the United States and Germany.
- Promote a positive image of Germans among Americans through the media and public discussion and a positive image of Americans in Germany.
- Preserve the German language, customs and culture.
- Support the concept of self determination as it applies to the unity and freedom of Germany in addition to supporting the Western Alliance.
- Educate adults and children in German language and culture.
- Instruct D.A.N.K. members in the principles of American citizenship and encourage a general interest in nonpartisan American politics.
- Encourage pride in all German-Americans and interested supporters for the German heritage.

Ernst Ott, *National President*

GERMAN-AMERICAN NATIONAL CONGRESS
DEUTSCH-AMERIKANISCHER NATIONAL KONGRESS
4740 N. WESTERN AVE.,- EXECUTIVE OFFICE
CHICAGO, IL 60625-2097
Tel. (312) 275 1100 FAX (312) 275 4010

- Krupp Widia Corporation, located in Livonia, Michigan, markets Widia tungsten carbide inserts and tool holders for metal cutting applications. In addition, its Urbana, Ohio, subsidiary Ultra-Met manufactures a complete line of tungsten carbide blanks which are marketed to fabricators. Another subsidiary, Dentex Research Development Corporation, Long Island City, New York, with its division Neoloy Products, Corp., Posen, Illinois, makes dental products under the umbrella of Krupp Medizintechnik, Essen, Germany.
- Krupp Steel Products, Inc., located in White Plains, New York, offers a complete range of carbon, alloy and stainless steel sheets, plates and sections. Forgings are offered in closed die and open die to various U.S. industries.

These operating companies in the United States have full access to all products and services provided by Fried. Krupp GmbH, and more than 100 subsidiaries worldwide, plus the advantages of local product specialists, service and part technicians, and experienced project management personnel. □

LTU INTERNATIONAL AIRWAYS is one of the leading independent carriers in Europe. As of today 60% of the LTU shares are owned by the heirs of founder—Kurt Conle, 34% are being held by West LB, and 6% by two private investors.

The company consists of LTU (Dusseldorf), LTU Sud (Munich) and LTE (Spain). With 6440 seats and 24 aircraft available, the airline business is the operational basis of the LTU group. Actually, LTU is a whole touristic concern consisting of the airlines, major tour operators, a catering company, a branch that invests in and manages LTU hotels. For example, in Spain, Cuba and on the Nile, there is an increasing number of incoming agencies to take care of the needs of passengers in LTU destinations.

LTU carried a total of 4.5 million passengers in 1990 to some 50 destinations worldwide. In that short range business, Spain is the primary destination, whereas long haul operations concentrate on the Caribbean, Far East and the United States. Long haul flights account for 18% of LTU's operations.

LTU began as a charter carrier and soon grew to be *number one* in Germany. Starting in 1990, LTU took up scheduled services and became an IATA member in July of that year.

Scheduled traffic rights have been granted for the following destinations as of October 1991: New York, Miami, San Francisco, Atlanta, Los Angeles, Bangkok, Colombo, Havana, Cancun, Montego Bay and Male. In addition, all services within Germany are scheduled.

With the unification of Europe, by 1993 the aim of LTU is to become the major force of tourism in all of Europe. A new corporate identity is being developed at the moment to support this position. □

Lufthansa

In an exceptionally difficult year for the entire airline industry, LUFTHANSA reported a small profit for 1990. The airline achieved a before tax profit of DM 142 million for the Lufthansa Group and DM 127 million for the airline. In 1989, the airline's before tax profit was DM 267 million.

Net profit after taxes was DM 15 million for the Lufthansa Group and DM 9 million for the airline. The company, as a result, only paid a dividend of five percent on preferred shares.

In 1990, Lufthansa carried 22.4 million passengers and 916,000 metric tons of freight. It, thus, remained number one in international scheduled air freight and retained its ranking as the third largest carrier of international passenger traffic.

Lufthansa increased revenue from flight operations in all regions in its route network despite heavy currency exchange losses and fierce competition on the price front. Strongest growth was in Germany with a gain of 27.5 percent.

In the final five months of the year, the soaring price of jet fuel and revenue losses prompted by the Gulf conflict cost the airline about DM 350 million. Profits totaling DM 256 million from the sale of aircraft within the normal fleet renewal program of the airline helped largely to overcome the deficit in ongoing business operations.

Although results failed to develop satisfactorily, Lufthansa sustained its long-term investment program in fleet expansion and modernization. Capital expenditure for the year surpassed DM 3 billion for the first time.

Lufthansa partially recouped 1991 first quarter losses from the Gulf War and its aftermath which totalled about DM 475 million with a pre-tax profit of DM 145 million for the second quarter of 1991. The results do not include any profits from aircraft sales.

The German national carrier closed the first half year with a pre-tax loss of DM 331 million compared with a loss of DM three million in the same period of last year.

First half sales rose by 1.3 percent to 3.9 billion ton kilometers, while capacity increased 1.5 percent so that the revenue load factor of 64.1 percent was only 0.2 percent below the same period of 1990.

Lufthansa's good second quarter results came principally from an 18 percent rise in revenue. First half revenue totaled DM 6.6 billion, an increase of 11.1 percent over the previous year's level. Gross revenue from flight operations rose by 11.8 percent to DM 6.39 billion.

In the first six months, Lufthansa carried 11.28 million passengers, an increase of 7.8 percent and 465,535 metric tons of freight, up six percent. Mail was up 33.7 percent to 62,689 metric tons. The seat load factor for the six-month period decreased 4.4 percent to 59.3 percent, but in the month of June the seat load factor was 64.1 percent. The number of flights rose by 20 percent to 163,626, while staffing was up by 5.7 percent to 49,796. The airline's fleet totaled 199 aircraft at the end of June.

Lufthansa said the improved results stemmed largely from a sharp rise in German domestic air traffic and higher yields resulting from favorable currency movements. It underlined that a sustained effort will be made over the rest of the year to make good the heavy losses from the Gulf War. □

MAN AKTIENGESELLSCHAFT, Munich, Federal Republic of Germany, is the holding company of the MAN Group, which is one of the leading European suppliers of capital goods. Group annual sales are DM 19,039 million; exports account for more than 60 percent of this sum. The MAN Group of companies employs 64,000 people.

The MAN Group was formed as a result of a re-structuring of the former GHH Group. In June 1986, M.A.N. Maschinenfabrik Augsburg-Nuernberg AG, Augsburg merged with the Gutehoffnungshuette Aktienverein AG (GHH, Oberhausen,) to form the new holding company MAN Aktiengesellschaft, based in Munich.

Both Gutehoffnungshuette and Maschinenfabrik Augsburg-Nuernberg can look back on a long industrial history: GHH grew out of the first iron works in the Ruhr area, the economic center of Germany, which started operating under the name of St. Antony at Oberhausen in 1758. M.A.N. was founded

in Augsburg in 1840 as a mechanical engineering company. In 1921 a majority share was acquired in M.A.N. by GHH. Over the years, M.A.N. assumed, an increasingly dominant role within the Group. The logical consequence of this long-term development was the merger of the two companies in 1986.

The center of the new grouping under the management of MAN Aktiengesellschaft is made up of the following companies with their numerous associated companies in Germany and abroad forming what is known as the Core Group: MAN Nutzfahrzeuge AG, Munich; Ferrostaal AG, Essen; MAN Roland Druckmaschinen AG, Offenbach; MAN Gutehoffnungshuette AG, Oberhausen; MAN B&W Diesel AG, Augsburg; MAN Technologie AG, Munich; RENK Aktiengesellschaft, Augsburg; Deggendorfer Werft und Eisenbau GmbH, Deggendorf.

In addition, MAN Aktiengesellschaft has major shareholdings in the following Group Companies: SMS AG, Duesseldorf and Schwaebische Huettenwerke GmbH, Aalen-Wasseralfingen.

The MAN Group member companies are actively engaged all over the world in the supply of commercial vehicles, machinery and plant construction, and trading. Their high-tech products and services are geared to satisfy virtually every demand in the fields of transport engineering and materials handling, printing and communications engineering, the chemical and petrochemical as well as basic industries, the power generating sector, and in environmental protection. □

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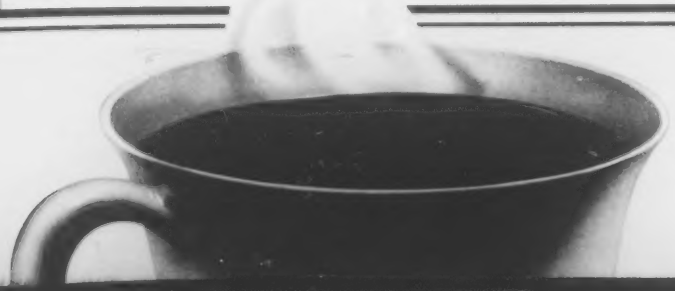


Melitta®

MELITTA NORTH AMERICA INC., a subsidiary of the Melitta Group in Minden, Germany, is the holding company for all the parent company's investments in North America.

The Melitta Group, as we know it today, owes its origins to the inspired invention of Melitta Bentz, a housewife, who in 1908 was granted a patent for a new method of brewing fresh coffee using paper filters. The small family business expanded rapidly and the first pack of filter paper with the red and green colors, which have remained the unmistakable hallmark of Melitta, appeared in 1925.

Three divisions comprise Melitta North America. They are the two consumer products companies, Melitta USA Inc. (headquartered in Cherry Hill, but also responsible for the export business into Central America) and Melitta Canada Inc. (headquartered in Toronto); and Porta Holdings Inc., a real estate concern based in Tampa, Florida. With the exception of Porta Holdings Inc., Melitta's business activities in North and Central America are concentrated on products for the discerning coffee drinker. The range of products marketed under the *Coffee Perfection* slogan enjoy a high reputation for quality among North and Central American consumers. The consumer product line includes a full range of household and institutional coffeemakers (automatic drip and non-electric), coffee filters, extra-premium coffee and accessories.

The mission of Melitta North America—one that will take it well into the 90's—is to become a major source of growth and long term profit potential for the Melitta Group. □

METALLGESELLSCHAFT was incorporated in 1881 as a joint-stock company to continue a long-standing Frankfurt metal trading business. The company has since that time steadily expanded its trading and industrial activities in a multitude of different ways. Today, Metallgesellschaft is an internationally active, service-oriented raw materials and technology Group. The Group's activities are divided into two Service Divisions of Metallgesellschaft AG (Trade- and Financial Services and Engineering-Services) and into eight industrial corporate units in which Metallgesellschaft AG holds substantial interests. With a worldwide turnover of about DM 20 billion, Metallgesellschaft is one of the largest corporations in Germany. The Group employs more than 30,000 people worldwide. □

JPMorgan

J.P. MORGAN provides sophisticated financial services to institutional and individual clients worldwide. Through its subsidiaries, the firm offers financial advisory services, underwrites and trades securities in international and domestic capital markets, conducts commercial and private banking business, and manages billions of dollars in pension and other investment funds. Morgan has established positions of leadership in many markets, including foreign exchange, the euro-markets, and investment management.

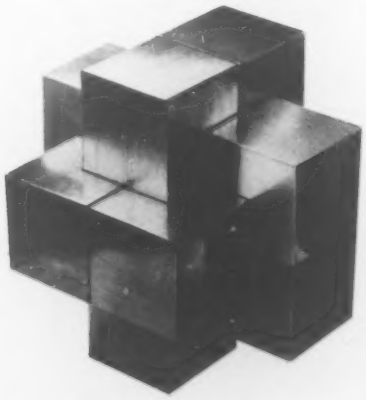
Over the last several years, Morgan's sources of revenue have become much more diversified. The firm earns more than half its income from noninterest sources, such as trading and corporate finance fees, and ranks among the leading investment and commercial banks when measured by this source of revenue.

The ability to commit capital has become increasingly important in global finance, and J.P. Morgan's financial strength is unequaled in the United States, allowing the firm to take a lead role in numerous sizeable corporate finance transactions for its clients. The firm's capital is used in a variety of ways to meet client needs, from lending activities to equity participations.

Morgan serves the needs of its German clients in all of the world's major financial centers, particularly in New York, Frankfurt, and London, where teams of professionals are assigned exclusively to German clients. In Germany, J.P. Morgan is represented through its Frankfurt branch office and its affiliates. J.P. Morgan GmbH is a universal bank providing commercial and investment banking services, including the underwriting, dealing and distribution of DM securities. J.P. Morgan Investment GmbH is active in the management of funds mainly for corporate and institutional investors. □

NORD/LB
NORDDEUTSCHE LANDESBANK
GIROZENTRALE

NORD/LB is the result of a merger between four banks in 1970. The oldest of these, Braunschweigische Staatsbank, had an extensive branch network which NORD/LB acquired in the merger, so that NORD/LB's



A knotty problem.

If Alexander the Great had been confronted with this puzzle instead of the Gordian Knot, world history might have been quite different. It's the so-called Chinese carpenter's knot, a challenge to man's intellect since antiquity.

This replica, cast by Metallgesellschaft experts, consists of six metals we traditionally deal in: zinc, copper, tin, lead, aluminium and nickel. For over a century, Metallgesellschaft has specialized in tackling the knotty problems of extracting these and other key metals and making them available to international markets.

To find out more about Metallgesellschaft's worldwide capabilities, just contact us.
We solve the knotty problems.

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Metallgesellschaft Corp.* · The Ore & Chemical Corporation** · MG Services Company, 520, Madison Ave., New York, NY 10022 · Metallgesellschaft AG, Reuterweg 14, D-6000 Frankfurt/Main · Metallgesellschaft Ltd.,*** Three Quays, Tower Hill, London EC3R 6DS · Further offices in Beijing, Bucharest, HongKong, Johannesburg, Kuala Lumpur, La Paz, Lima, Madrid, Manila, Melbourne, Mexico D.F., Milan, Moscow, New Delhi, Paris, Riyadh, São Paulo, Seoul, Singapore, Sofia, Sydney, Tokyo, Toronto, Warsaw, Zagreb.

* Member of the New York Mercantile Exchange ** Member of Comex *** Ring Dealing Member of the London Metal Exchange

business contains a larger retail element than that of other Landesbanks.

NORD/LB currently has nine main branches and 185 branch offices in Lower Saxony. Its headquarters are situated in Hanover and Braunschweig, with a securities operation in Frankfurt.

With total consolidated assets of DM 131 billion at the close of 1991, NORD/LB is the tenth largest bank in Germany and the nation's third largest Landesbank or state bank. A commercial bank, it also acts as a central bank for the 70 savings banks in the state of Lower Saxony and as house bank to the government of Lower Saxony.

Effective April 1, 1992, NORD/LB will also extend these services to cover the adjacent East German state of Saxony-Anhalt.

Although NORD/LB's portfolio of retail loans and deposits is large compared with other Landesbanks, a considerable portion of its business is in the wholesale sector. Almost 85% of its consolidated loan portfolio is long-term bonds. As NORD/LB is a public-law institution, it can issue such bonds without capital restrictions.

Since the bank's owners, the State of Lower Saxony and the Lower Saxony Savings Banks and Giro Association have unlimited liability, NORD/LB is one of the most secure banks in Germany.

NORD/LB's main foreign operations are its wholly-owned Luxemburg subsidiary (Norddeutsche Landesbank Luxembourg S.A.), a branch and securities subsidiary in London and a branch in New York.

The New York Branch can be contacted at the following address:

1270 Avenue of the Americas
New York, NY 10020
Tel: (212) 332-8600
Fax: (212) 332-8660

Head office:
Georgsplatz 1
D-3000 Hannover 1
Germany
Tel: (511) 361-0
Fax: (511) 361-2502 □

NYNEX

NYNEX CORPORATION is a leader in helping people around the world communicate using information networks and services. The company's Worldwide Services Group provides network and information systems in the United States and more than 60 countries.

The company also offers wireless communications services and directory publishing services. Its Telecommunications Group provides voice and data communication services for approximately 12 million customers in the northeastern United States.

Among the NYNEX companies:

New England Telephone and *New York Telephone*—Provide network services to customers in Maine, Massachusetts, New Hampshire, New York, Rhode Island, Vermont and parts of southern Connecticut. The two telephone companies also sell telecommunications and information systems solutions to NYNEX's largest business accounts.

Telesector Resources Group—Furnishes its joint owners, New England Telephone and New York Telephone, with marketing and technical planning, regulatory, operations and computer support services. Also provides an extensive range of integrated materials management and technical services.

NYNEX Information Resources Company—Publishes more than 300 Yellow and White Pages directories annually. The company also markets NYNEX FAST TRACK™ Digital Directory, a compact disc format on NYNEX's published White Pages listings.

NYNEX Mobile Communications Company—Offers cellular communications services in the northeastern United States.

AGS Computers, Inc.—Offers information systems consulting services, systems integration, software and turnkey systems to financial, communications, manufacturing and government organizations.

The BIS Group, Ltd.—A worldwide information services organization headquartered in London. Its services include consulting, information systems, software development, marketing services and facilities management.

NYNEX Computer Services—Provides custom software platforms, turnkey systems and operations management services worldwide.

NYNEX Development Company—Manages selected business opportunities for NYNEX including integrated network management solutions, field service management and financial distribution software systems.

NYNEX Network Systems Company—Based in Brussels, Belgium this unit seeks network privatization and other private network opportunities, cellular licenses and cable TV franchises outside the United States. □

OOCL

ORIENT OVERSEAS CONTAINER LINE is one of the largest container operators in the world providing customers with a global, fully integrated containerized transportation service encompassing nine principal trade areas, including North America, Europe, Australia, the Middle East and comprehensive coverage of the Far East.

OOCL owns or operates container vessels, container terminals, containers and container chassis. In addition, the company has operations performing other functions vital to the provision of an integrated containerized transportation service, such as container service management, road haulage, intermodal services, agency freight forwarding and cargo consolidation. With an extensive computer network, OOCL provides customers with information from all OOCL offices and agencies worldwide. Through its system capability, OOCL offers electronic U.S. Customs clearance to customers at selected ports.

OOCL has under its operation 30 container vessels with aggregate capacity of 60,000 TEUs, deployed in 15 liner service routes calling at 110 ports in 56 countries. With 5,000 professional staff worldwide, OOCL services cover all continents.

OOCL's service between Europe and North America provides maximum coverage of transatlantic ports, a dependable schedule of sailings and complete integration with OOCL's Far East services. Connecting the U.K., European Continent and Mediterranean with North America are three weekly fixed day sailings: North Atlantic Express and two Gateway Express services.

Beyond North America, OOCL's services include service between the Far East and Europe, the Middle East, and Australia, as well as Far East Interport services. While utilizing separate fleets, these distinct services provide a well coordinated network of integrated service enabling customers to deal with one carrier to satisfy all of their transportation needs. □

Price Waterhouse

With a tradition of excellence over 100 years old, PRICE WATERHOUSE, through its German Business Group, is proud to provide skills and services to German client needs, whatever those needs are and wherever they may arise, in the U.S. or overseas. We do this through the establishment of industry services that transcend the traditional service categories of audit, tax, and consulting. Our worldwide network of over 450 offices in approximately 110 countries gives our clients ready access to the Price Waterhouse resources and personnel.

But that is the bare minimum. No matter how sophisticated our network or computerized our technical tools and practice aids, they are only as good as the professionals who use them.

The people who staff our German Business Centers* are highly qualified bilingual professionals, including Wirtschaftsprufer and Steuerberater, experienced in anticipating, identifying and meeting client needs: knowledgeable about each client's business and the environment in which that client operates. Experienced in building relationships with a range of client executives. Responsive to client concerns.

Look to us for personalized attention. Whether your company is a giant multinational or a start-up operation, you will find us attentive to your concerns, completely knowledgeable about our own business and the range of services we offer, with specialists to help you, whether you are wrestling with ever more complex tax rules or coping with all the facets of the new HB II requirements. In fact, we will even provide company seminars for your accounting personnel and supply you with professional literature.

Right now you can contact the German Business Group (212-371-2000, ext. 5336) for a free brochure describing what the new HB II requirements may mean for your company. Or ask for one or more of the publications listed below:

- HB II: Meeting the Challenge
- Immigration and Tax Planning for German Employees Assigned to the U.S.
- U.S. Federal Estate and Gift Taxation of German Nationals
- Doing Business in Germany
- Doing Business in the United States
- Tax Planning for Acquisitions in the United States
- Tax Planning for Foreign Investment in U.S. Real Property
- Foreign Nationals in the U.S.
- The Right Start in USA
- Marketing in the USA
- Comparative Presentation of German and U.S. Auditing Standards
- Comparative Presentation of German and U.S. Accounting Standards

PRICE WATERHOUSE—bilingual and bicultural. And committed to quality client service.

*Price Waterhouse German Business Offices are located in New York (headquarters), Atlanta, Charlotte, Chicago, Houston and Los Angeles. □

SCHLEICHER

Relays and Automation Systems

SCHLEICHER GmbH & Co. Relais-Werke KG was founded in Berlin in 1937 by Senior Engineer Otto Schleicher. After destruction and dismantling by the Second World War, the company was re-established and rebuilt to a modern industrial enterprise by his son, Senior Engineer Helmut Schleicher. The Schleicher relay works stands today as a manufacturer of high precision time relays and programmable controllers in Germany and in the world.

From the very beginning it was the capability to participate in the technological relay progress by pioneer work which secured the success of the Schleicher relay works. The secret of the success of Schleicher relays is functionality. The convenient time adjustment and range selection, the at-a-glance function display, and the stylish standardized housings are convincing facts for the relay user.

Quality is another base for Schleicher's success in nearly all industries. In the last four years 12 million German marks were invested in new automated assembly lines and test equipment to respond to the global standards all over the world.

Since 1962 the Schleicher Company has been very actively engaged also in the programmable controller market. The Schleicher Electronic Company which is located in Munich was founded for the purpose of designing and engineering of custom controllers. With over 150,000 controllers installed worldwide, the Schleicher Electronic Company is today one of Germany's most recognized companies in this field. Because of this fast expansion, the Berlin headquarters had to build up its own Automation Division. The range of the Schleicher controller line starts

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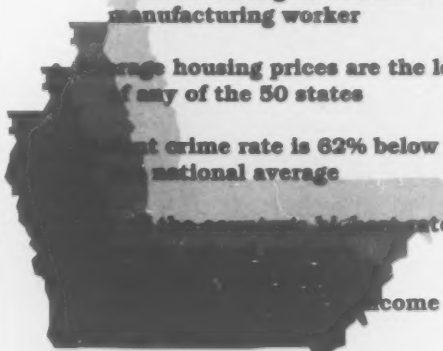

ie: IOWA ELECTRIC LIGHT AND POWER COMPANY
Ernest A. Tippie, Manager
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Phone 319-398-4542
Fax 319-398-4567

IOWA SOUTHERN UTILITIES COMPANY
Gary Williams, Manager
Economic Development
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SCHWARZE-WIRTZ of Cologne, Germany, is a name that not only in Europe is immediately associated with the highest quality pipe and tube cold bending machines. Slowly that reputation is being recognized also in the United States and Canada and justifies their trademark *PERFEKT*.

The family undertaking, which can trace its roots back to 1900, had the chance to purchase *Peter Wirtz* company, who were producing tube cold benders since 1930, in 1953. Today, Schwarze-Wirtz has the most extensive range of fully automatic CNC cold bending machines manufactured in the world, but also the conventional semi-automatic models with electro-hydraulic control are still being built with great success. Models cover tube from .187" OD up to and including 16." OD pipe.

World-wide emphasis on quality has never been higher, yet it is coupled at the same time with the prerequisite of cost-efficient production. This demand has created opportunities for the advanced technology engineered in Cologne to be put to practical use. Schwarze-Wirtz is dedicated to making only rotary draw bending machines and the support equipment that streamlines this operation.

Schwarze-Wirtz's extensive knowledge of bending is apparent in the design of their machines. Great emphasis is on special features and innovations for different industrial markets, like for example, boiler manufacturing, shipbuilding,automobile production, chemical industry, furniture manufacturing, etc.

Schwarze-Wirtz welcomes the opportunity to work with their customers worldwide to solve new problems created by an ever changing market environment.

For more information, please contact:

Schwarze-Wirtz GmbH & Co KG
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Kalamazoo, Mi 49009
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SIEMENS

In fiscal 1990/91, the SIEMENS' U.S. companies reported $4.5 billion in sales, a 10 percent increase over the previous year, and orders of $4.6 billion, or a 6 percent increase over fiscal year 1989/90. The Siemens companies employ more than 29,000 people in the U.S., or a total of 35,000 if companies with a Siemens participation of 50 percent or more are included.

Siemens Medical Corporation, Iselin, NJ, continued to report the highest sales volume of all U.S. companies with $1.6 billion. Siemens Energy & Automation, Inc., Alpharetta, GA recorded revenues in excess of $900 million. Siemens has some 60 manufacturing

and assembly facilities and 450 sales and service locations throughout the country.

To assure future technological leadership, the Siemens companies in the U.S. invested approximately $450 million, or roughly 10 percent of revenues, in research and development during the last year. Annually, Siemens ranks among the top 10 companies granted the most U.S. patents, and, again this year, contributed approximately $2 million as part of its active liaison and joint research program with leading American colleges and universities.

While Siemens' individual U.S. operating companies conduct extensive product R&D, they are supported, in turn, by Siemens Corporate Research in Princeton, NJ. The laboratories work closely with the Siemens U.S. companies to help ensure technical leadership in their respective markets both through applied and exploratory research initiatives.

Siemens primary companies in the U.S. include: Siemens Medical Corporation and Siemens Components, Inc., Iselin, NJ; Siemens Stromberg-Carlson and Siemens Private Communication Systems, Inc., Boca Raton, FL; Siemens KWU, Inc. and Siemens Transportation Systems, Inc., New York, NY; Siemens Energy & Automation, Inc. and Siemens Industrial Automation, Inc., Atlanta, GA; Siemens Automotive, Auburn Hills, MI; OSRAM Corporation, Montgomery, NY; Potter & Brumfield, Inc., Princeton, IN; and Siemens Nixdorf Information Systems, Inc., Burlington, MA. □

STINNES

STINNES CORPORATION, New York, is a wholly owned subsidiary of Stinnes AG, Muelheim, Germany, a member of the VEBA Group of companies. Stinnes Corporation is the U.S. holding company with subsidiaries and joint ventures which trade and distribute various commodities in the United States and internationally.

Stinnes Interoil, Red Bank, New Jersey is a major supplier of heating oil and other oil products to utilities and industry. Stinnes Coal Company, Inc., with offices in Kentucky, markets U.S. steam and metallurgical coal both on a domestic and export basis. F & S Alloys and Minerals Corporation, New York and Miller and Company, Chicago, Illinois serve the domestic foundry and steel industries with a wide spectrum of alloys, ores, minerals and other raw materials from worldwide sources.

The chemical distribution activities of Stinnes consist of four strong regional distributors: Textile Chemical Co., Inc, Reading, Pennsylvania; Delta Distributors, Inc., Longview, Texas; P.B.& S. Chemical Co., Inc., Henderson, Kentucky; SOCO-Lynch Corporation, Los Angeles, California/Crown Chemical Corporation, San Diego, California. International chemical trading including international sourcing is performed by Brenntag Interchem, Inc., Philadelphia, Pennsylvania.

Stinnes recently acquired Schenkers International Forwarders, Inc., which provides freight forwarding, custom brokerage, and warehousing and containerization services. The company maintains a network of 45 offices throughout the United States providing a full range of transportation services domestically and worldwide.

Another Stinnes subsidiary, Precision National Plating Services, Inc., Clarks Summit, Pennsylvania provides industrial services, mainly repair and rebuilding of diesel engine components.

Total sales of the U.S. Stinnes Group are expected to be approximately $1.4 billion in 1991. All subsidiaries are actively expanding their operations. □

Südwest LB
Südwestdeutsche Landesbank

SÜDWESTLB is on the one hand a multitask commercial bank active both in Germany and abroad. At the same time, the Bank is also the central banking institution for the savings banks in Baden-Württemberg, a state in the Federal Republic of Germany. With a balance sheet total of about DM 94 billion, SüdwestLB ranks among the 100 largest banks in the world.

As a commercial bank, SüdwestLB is active in all areas of banking, offering a comprehensive range of banking services. In addition, its subsidiaries offer special forms of financing, such as leasing, factoring, capital participations, special investment funds and real estate investment funds.

As a central institution of the savings banks, SüdwestLB is the nucleus of a financial services group which includes 88 savings banks in Baden-Württemberg, two insurance companies and two building societies. This group offers customers the whole spectrum of financial services available today.

With the economy of Baden-Württemberg strongly oriented toward foreign trade, international business is of particular importance for SüdwestLB. Thanks to modern technology, a worldwide network of over 1,000 correspondent banks, and the SüdwestLB's own offices in the world's major financial centers, such as New York, the Bank is in direct and constant contact with all the international markets.

With the Bank's own international activities and the participation in WestLB Europa AG, SüdwestLB maintains a presence in currently 17 European countries. A cooperative Agreement with Standard Chartered Bank ensures access to some 700 Standard Chartered offices located mainly in Africa and Asia. Furthermore, additional international merchant banking capacity has been acquired.

SüdwestLB's head offices are in Stuttgart and Mannheim with domestic branches in Freiburg and Karlsruhe and a stock exchange office in Frankfurt/Main. □

TELOS

Founded in June 1990, TELOS GmbH activities are dedicated to:

- aircraft maintenance and modifications
- technical logistical support of airborne data acquisition systems and ground stations for data analysis and dissemination.

TELOS is the result of a U.S.-German joint venture among the companies E-Systems, Grob, Messerschmitt-Bölkow-Blohm, and Elekluft.

Thus, TELOS is able to draw upon the complementary capabilities of the founding partners:

- *E-Systems* special expertise lies in the design and integration of sophisticated state-of-the-art electronic systems in the areas of reconnaissance and surveillance systems, command and control, and specialized electronics systems.
- *Grob* is the leading manufacturer of advanced composite sailplanes, motorgliders and powered aircraft. Grob, in conjunction with E-Systems, developed the high-altitude Egrett aircraft. The Egrett holds three world records for its class including an altitude of more than 50,000 feet.
- *Messerschmitt-Bölkow-Blohm* is the largest aerospace company in Germany and has a successful record in independent and multinational space, civil aviation and defense technology programs. MBB is a systems leader for military high performance airplanes, including the related airborne and ground-based peripheral systems.
- *Elekluft* is well known for the development, integration, manufacture and logistical support of ground-based systems. The main focus of Elekluft activi-

ties comprises command and control, software, aerospace, and sophisticated industrial applications.

For more information, please contact:

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Germany

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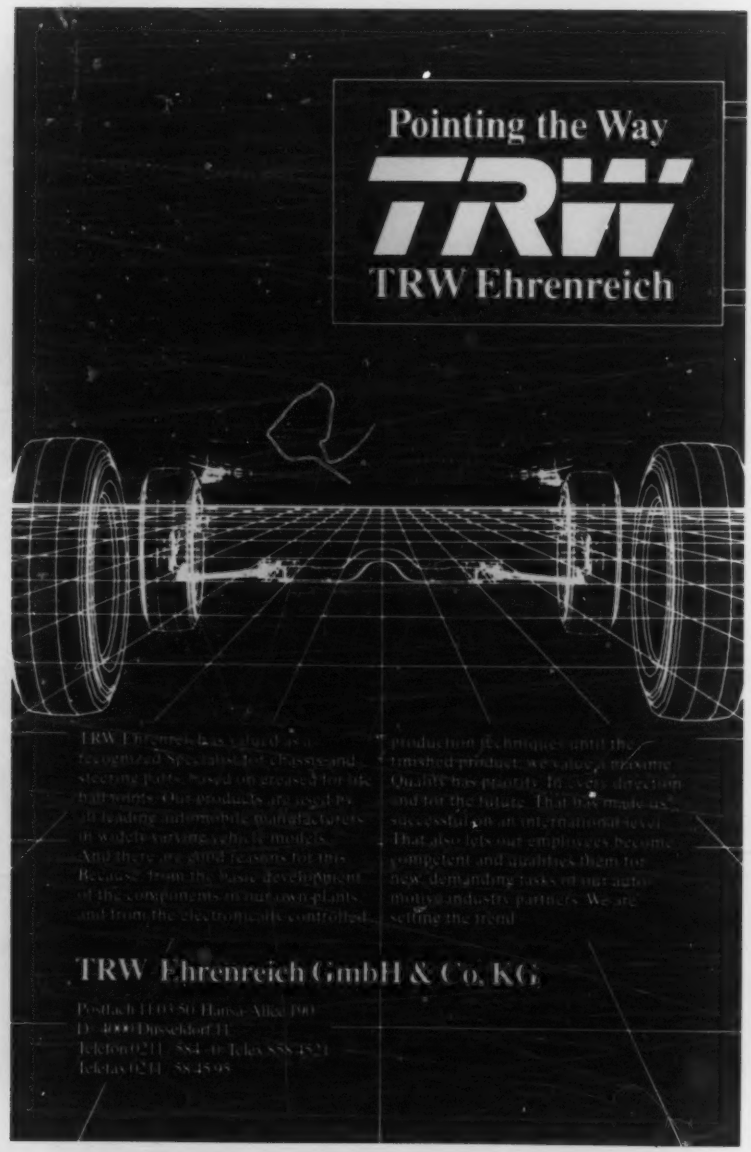
Fax: (2421) 6907-10 □

The history of Ehrenreich is closely connected with that of the automotive industry. Aurelius Ehrenreich founded the company in 1887—only one year after Gottlieb Daimler had built the first four-wheel motor-driven carriage. Within only 35 years the company developed into an important manufacturer of a variety of parts for the machine-building industry. In 1921 the start in automotive engineering was made by acquiring the patent for ball joints for the manufacture of tie rods and drag links.



Today Ehrenreich produces suspension ball joints, tie rods/drag links, control arms, connecting links, torque and radius rods and gear shift levers for practically all makes and almost all types of vehicles in Europe on the basis of maintenance-free ball joints. Recently power-assisted rack and pinion steerings were included in the company's product range.

The high safety and quality standards that are recognized throughout the automotive industry are an essential must for the present position of TRW Ehrenreich in Europe. With about 4,200 employees in five plants Ehrenreich is not only one of the largest companies in the TRW corporation, but also a leading supplier to Europe's automotive industry.

Ehrenreich became a subsidiary of TRW Inc. Cleveland/Ohio in 1971. This corporation is active throughout the world with 70,000 employees and ranks among the largest suppliers to the automotive industry. Additionally TRW is a leader in the American space and satellite industry as well as in the fields of communication, electronics and computer technologies. As part of TRW, Ehrenreich will also in the future continue to offer most competitive products to the automotive industry worldwide. □

TÜV Rheinland

TUV RHEINLAND OF NORTH AMERICA, INC. is a wholly owned subsidiary of TÜV Rheinland e.V., headquartered in Cologne, Germany.

As the largest European testing agency in the United States, TUV Rheinland of North America, Inc. assists American manufacturers and exporters gain and strengthen their access to the European Marketplace.

With eleven locations in North America, TÜV Rheinland offers cost effective and timely product and quality assurance system certifications to companies that want to do business in a global marketplace.

When a product bears the TÜV Rheinland GS or CE Test-Mark, it is instantly recognized as a product which is in full compliance with German and European quality and safety standards. Both retailers and consumers are aware that the product has been tested and certified as safe by one of Europe's most respected evaluators of quality and safety. Likewise, when a company is ISO 9000 registered by TÜV Rheinland, the company is acknowledged by their customers as operating in compliance with internationally accepted quality assurance standards.

The work of the TÜVs has always been an important contribution to the protection of

man, his environment, and his property from the negative consequences of technology.

TÜV Rheinland e.V. was founded in 1872 as a cooperative effort to ensure the safety of personnel and equipment of the steam boiler industry. Technical Supervisory Agencies (Technische Überwachungs- Vereine—TÜV) were founded as independent, neutral bodies to raise the standards of safety in the steam boiler plants to a very high level within a short time through regular technical inspections. TÜVs were instrumental in the development and introduction of new technologies.

TÜV Rheinland is the largest of the TÜVs, with its headquarters in Cologne; it has expanded worldwide to include over 5,000 employees in the TÜV Rheinland Group.

TÜV Rheinland is an agency authorized by the German Equipment Safety Law to test and certify over 1,500 products in the fields of: data processing and communications equipment, electrical tools and appliances, robotic controlled production machines, sports equipment and toys, mechanical equipment, medical equipment, and other equipment specified by law.

In addition to its classic function as a testing agency, TÜV Rheinland has increasingly assumed the role of consultant to both industry and the government. The group has also become affiliated with the Techno-Consult field. The task of environmental protection is becoming increasingly important. TÜV engineers advise companies on waste disposal problems, work in the field of rehabilitation of old waste and can provide environmental tolerance tests for planned industrial projects.

TÜV also offers assistance in the following fields of testing and consultation: Product Safety, Quality Assurance Programs (ISO 9000/EN 29000 Series), Ergonomics, Automotive, Medical Technology, Steam and Pressure Technology, EMI/RFI suppression.

For more information, and the office nearest you, please contact:

Ms. Leila Manfred
Corporate Coordinator, Marketing
Tel: (203) 426-0888
Fax: (203) 426-3156 □

TENTE®

The history of TENTE begins in 1923, in Tente, a small village near Cologne, West Germany. The company originally marketed ball casters and rollers for sliding cabinet doors. From the start, the company developed a good reputation which in turn led to expansion of the product range and the commencement of manufacturing activities.

Following World War II, Tente concentrated on manufacturing precision institutional casters; and in the 1950s and 60s, Tente grew into one of the world's largest caster manufacturers.

In 1983, Hufa Rollen KG, a manufacturer specializing in furniture and industrial casters, was purchased by Tente. This purchase laid the foundation for a complete product line.

Today, Tente has modern production facilities with in-house tool manufacturing, molding, pressing, stamping, plastics processing, zinc die casting, testing labs and computer controlled warehousing and production lines.

Tente Casters, Inc., a wholly owned subsidiary of Tente Rollen GmbH, was founded in 1979 to serve the caster needs of America. The plant in Erlanger was expanded in 1986 and 1989 to meet the growing needs of the American market. Further expansion was necessary and the company moved to a larger plant in Hebron, Kentucky in 1991.

Today, the Tente group employs more than 800 people, in two factories in West Germany and in production facilities in the United States, France and Ireland. Additionally, Tente has sales offices worldwide and serves customers in more than sixty countries.

For additional information, please contact:
Bradford Hood
Vice President of Sales and Marketing
Tente Casters, Inc.
2266 South Park Drive
Hebron, Kentucky 41048
1-800-783-2470 □

THYSSEN

THYSSEN INC., a wholly owned subsidiary and member of the West German Thyssen Group, is a major U.S. and international trading concern, which has its headquarters in New York City.

The steel products of the Thyssen mills as well as industrial products of various Thyssen enterprises have been sold in the U.S. for many years. As the demands for these products increased, it became necessary for the Thyssen Group to establish a company to facilitate communications, order entries and achieve more complete penetration between Thyssen and its customers.

Thyssen Inc. was founded in mid-1959. Since its formation, Thyssen Inc. has continually expanded its U.S. and international operations by adding various new lines of activities to the original business of importing steel. As a result, Thyssen Inc.'s organizational set-up was restructured in the beginning of 1981 with the formation of three major divisions, Thyssen Steel Co., Thyssen Carbometal Co. and Thyssen Rheinstahl Technik Co.

Thyssen Steel Co. expanded its direct domestic sales representation with offices in Houston and Los Angeles and with the formation of divisions and/or subsidiaries to handle and establish various additional lines of business.

In the 1970's Thyssen Steel Co. entered the domestic market of steel warehousing with the establishment of Thyssen Metal Service/ Southwest and later on with Thyssen Metal Service/West Coast and Thyssen Steel Detroit Co. and Westcoast Metal Products Co. These service centers and distributors supply to the Southwest, Southeast, Northeast, the Midwest and Great Lakes areas and the West Coast respectively with rolled steel products.

Since the mid-1980's Thyssen Steel Co. successfully opened export markets for steel products manufactured by U.S. and Mexican steel producers.

In 1991 a further restructuring took place. The steel trading, processing and distribution activities of Thyssen Steel Co. and Thyssen Steel Detroit were combined to form the Thyssen Steel Group. Also included in this new Group is the Thyssen Steel Technical Center which provides full technical service for all steel activities.

Thyssen Carbometal Co. has established a worldwide business in raw materials, mainly coal and iron ore, and Thyssen Sonnenberg Co. actively pursues exports of ferrous scrap to Southeast Asia and Latin America.

Thyssen Metal Products Co. established itself as a distributor and importer of various alloys.

Thyssen Rheinstahl Technik Co., headquartered in Atlanta, Georgia, continues distribution as well as marketing of special forgings and castings covering all regions of the U.S. market.

In mid-1989 Thyssen acquired Amerford International Corporation, a leading international air and sea freight forwarder, thereby firmly establishing Thyssen Haniel Logistics' transportation activities in North and South America.

Today the combined operations of Thyssen Inc. employ almost 600 people in various parts of the country. The company's activities include international raw material trading, warehousing and steel service center operations in the U.S., as well as sales of industrial products and project management.

With such dynamic growth, Thyssen Inc. has become a major factor in domestic and international trading. □

TRUMPF

Established as a sales subsidiary of TRUMPF GmbH in 1969 in Farmington Industrial Park, Farmington, Connecticut, TRUMPF INC. is now a wholly-sufficient 80,000 sq. ft. manufacturing, sales and service facility with 200 employees. It surpassed its sales forecast of $35 million for the fiscal year 1987-88 despite a lengthy machine tool industry depression.

In spite of the current difficult economic environment worldwide, the group of Trumpf subsidiaries, a network extending from West Germany to America, Brazil, England, France, Japan, Sweden and Switzerland that employs 2,600, increased sales by 17% to 540 million DM for the fiscal year ended June 1988.

Having incorporated production functions in 1975, the American subsidiary shipped its 500th CNC sheetmetal working machine this past Spring. Approximately 35% of the machines built in the USA are exported to Japan, Canada, Mexico and South America.

The technically superior, economically efficient, innovative Trumpf product-line includes CNC punching/contouring machines, CO 2-based lasers and lasercutting centers, fully automatic flexible manufacturing systems, and a wide range of portable power tools.

The first machine tool manufacturer to build a range of R.F. -excited industrial lasers providing advanced cutting technology,

Trumpf last March purchased an established 40,000 sq. ft. laser manufacturing facility from Combustion Engineering in Somerville, Massachusetts, in order to more deeply penetrate the more than $200 million U.S. laser market. Now called Trumpf Industrial Lasers, the operation adds the capacity to produce A.C.-excited lasers. Today, Trumpf is one of the largest laser system manufacturers worldwide.

The company extended its commitment to fully automated sheetmetal fabrication and strengthened its leadership position as a single-source supplier of complete flexible fabricating systems when in May it began providing storage and retrieval systems manufactured in the U.S. Trumpf Storage and Retrieval Systems range from simple storage racks to sophisticated units under computer control which can be integrated into many different flexible manufacturing cells.

Ideal for large production runs as well as small job shop applications, Trumpf products are a standard for productivity and precision. Heavy investment in research and development has resulted in a high degree of responsiveness to customers' manufacturing needs, whether for punching and contouring, punching and thermal cutting, cells or total flexible manufacturing systems, tooling and tool change systems, or power tools.

The Trumpf Power Tools product-line, which saves time and decreases operating costs, includes both electric and pneumatic bevelers, nibblers, a power fastener, shears, a power punch, and seam lockers. As with the Trumpf CNC machine product-line, tools are designed to ensure long service life and economical maintenance. □

UBM

The UBM CONSULTING GROUP is a German-based international management consulting firm, specialized in the industrial and technology-oriented sectors.

The firm is headquartered in Munich (UBM Unternehmensberatung München GmbH) with offices in the U.S., Europe, and Japan.

Most of UBM's clients are manufacturers in the following industries:

- Machinery and Production Equipment
- Electrical/Electronics
- Automotive Components
- Computers and Telecommunications
- Chemicals and Environmental Engineering

Financial institutions, insurance companies and agencies which serve these fields, are also clients of the firm.

UBM offers services to address such issues as the rising investment risks associated with shorter product life cycles, the need for efficient, integrated information systems, and the globalization of sales, production, and purchasing activities. UBM's comprehensive range of consulting services include:

- Corporate Strategy
- Joint Ventures, Acquisitions and Diversifications
- Organizational Development and Restructuring
- Marketing, Sales and Distribution
- Market Research
- Manufacturing, Productivity and Cost Analysis
- Logistics and Inventory Management
- Information and Planning Systems

Through UBM's work for German companies with U.S. operations, the firm has developed significant insights into parent-subsidiary issues. These include establishing appropriate organizational structures, managing differences between national markets, and developing logistics and support systems.

UBM also works with European subsidiaries of U.S. companies, and investors planning to enter the European market-place. The firm's offices in Germany, Italy, France, Spain and Switzerland provide specific know-how regarding Europe's national and regional markets.

UBM has worked extensively in East Germany assisting clients to adapt to a market economy, and is in a position to assist U.S. companies interested in the East European markets.

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Fax: (089) 930 37 29 □

UPS United Parcel Service

The world's largest package delivery company, UNITED PARCEL SERVICE, offers an expanding array of reliable, low-cost, worldwide delivery services for commercial shippers. Founded in 1907, UPS now has an annual delivery volume in excess of 2.9 billion packages and documents, and serves over 1.1 million regular daily customers. The company employs over 250,000 people worldwide, including 10,000 people in Germany.

Since 1976, the Köln/Bonn Airport has been the nerve center of UPS European air operations, and currently serves as the primary transfer point for shipments to and from Europe, Africa and the Middle East. Today, in addition to our international air services, UPS operates an extensive ground delivery network with door-to-door service to every address in Germany.

Committed by our founder to providing *the best service at the lowest possible rates*, UPS delivers value through an international service portfolio which includes express

package and document delivery, multi-package freight, and air cargo. All UPS international air services provide reliable, scheduled transit times, door-to-door delivery, expert customs brokerage, and electronic shipment processing and tracking at extremely competitive prices.

Express Package & Document Service—For urgent international shipments, UPS offers express delivery of documents and dutiable package shipments to over 180 countries and territories around the globe via UPS International Air service. Most of our international express shipments to and from Europe are delivered in just two business days.

Expedited Package Service—UPS Worldwide Expedited Package Service provides precisely scheduled, door-to-door delivery of multi-package air freight shipments between the United States and major export countries in Europe and the Far East. The reliability of scheduled service and the control afforded by the use of an integrated carrier can benefit the shipper and consignee with improved service as well as reduced inventory and transportation costs.

Air Cargo Service—UPS Air Cargo Service provides direct, scheduled delivery of virtually any type of freight to more than 80 strategically located gateways in North America, Europe, and the Pacific Rim. Cargo is booked on a reserved-space basis, usually with immediate confirmation and routing information through our centralized, on-line booking service. Pickup and delivery and bonded warehousing can be arranged at an additional charge.

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VAW aluminum

V. A.W. of AMERICA. INC., a wholly owned subsidiary of Vereinigte Aluminium-Werke AG Bonn, has operated its Ellenville, NY facility for approximately 25 years and its St. Augustine, FL plant for ten years. A third plant was acquired in 1989 in Phoenix, AZ increasing its capacity by over 30%.

With these three strategically located aluminum billet and semi-fabrication plants, V. A.W. of America is positioned to cover the entire U. S. market in terms of customer service, expeditious shipments and excellent logistics.

The company's manufacturing operations include three aluminum remelt facilities, ten extrusion presses and fourteen high-speed drawbenches. The Ellenville plant's solution heat-treat and seamless tube capability ranks it among a limited number of world-class suppliers in drawn tube for special applications. The plant also holds a similar position in the imaging industry in the supply of copier drums. In close tolerance extrusions, production of sailboat masts, automotive and electronic features. Lighting stands and spin tubing are particularly noteworthy. The St. Augustine plant's Fabrication Division includes a computer numerically controlled *(CNC)* machining facility which operates nine horizontal and vertical centers producing such articles as copier fuser rolls and printing plotter beams. In finishing, the operation houses two paint lines: an electrostatic, thermal-setting acrylic or polyester line and a powder coat line. The Phoenix plant's capabilities are highlighted by expertise in close tolerance specialty extruded shapes, large diameter pipe including spin tube and drawn tube.

Through its award-winning engineering design team and its research and development metallurgical staff, the company has amplified its quality reputation as the industry leader in the production of practically the entire range of sizes, surfaces, tempers and alloys of drawn tube, specialty extruded shapes, fabrications, finishing and electrical conduit.

The production facilities represent an extension of the technical development in the testing laboratories, utilizing state-of-the-art equipment such as coordinate measuring and ultra-modern electrospectographic analysis machines. Quality is assured at every step in the manufacturing process through elaborate testing as well as statistical process control (SPC) data and certifications for chemical compositions and mechanical properties.

V. A.W. is regarded in the U.S. market as a major supplier of fabricated, finished extruded and drawn aluminum tubular and shape products. Its solutions and ideas have continually assisted the customer, leading to V. A.W.'s reputation as *Your Partner in Aluminum.* □

ZF®

ZF OF NORTH AMERICA, Inc. is the exclusive representative for ZF products in the United States and Canada. The company currently employs 284 people at its facilities in Libertyville, Vernon Hills and headquarters in Lincolnshire, Illinois, a suburb of Chicago, and its office in Detroit.

The company emphasizes research and development, and has a reputation for producing quality, cost competitive products.

ZF specializes in advanced drive train and steering components for a wide variety of on- and off-highway applications, including agriculture, construction and material handling vehicles, passenger cars, trucks, rapid transit buses, and pleasure and work boats.

As a worldwide leader in driveline technology, ZF supplies many major manufacturers in the U.S. with automatic, manual and powershift transmissions, trans-axles, axles and steering systems.

In addition, a worldwide staff of factory-trained technicians is always available to provide prompt technical support, service and spare parts. ZF is committed to backing all of its products during the warranty period, as well as afterwards.

A brief history of the ZF Group

ZF of North America, Inc. is part of the ZF Group, which was founded in 1915 by Count Ferdinand von Zeppelin to produce transmissions for his famous Zeppelin airships.

Several years later ZF pioneered the first fully synchronized manual transmission.

Today, the ZF Group of companies is the leading independent manufacturer of transmissions, steering systems and axles in the world, has sales of $4 billion, employs more than 34,000 people, and operates facilities and service centers in Europe, North America, South America and the Far East.

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Lincolnshire, Illinois 60069
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Fax: (708) 634-0736
Tlx: 25-5240

It costs no more to specify the best—ZF □

CARL ZEISS, Inc. is a part of the worldwide Carl Zeiss organization headquartered in Germany. Since its establishment as a U.S. corporation in 1925, Carl Zeiss, Inc. has constantly expanded its presence in the American market as a sales, marketing, and service organization of precision products for industry and for the medical and scientific communities. These are products which have set world standards for nearly one and one-half centuries. The Zeiss commitment to uncompromising excellence has consistently defined the state-of-the-art in such diverse areas as precision machines for industrial measuring, optical systems for industrial applications, surveying instruments, aerial cameras, light and electron microscopes, surgical microscopes and lasers, ophthalmic instruments, telescopes and planetaria. Cases in point are the recent introduction of an advanced line of research microscopes, an electron microscope which promises breakthrough discoveries in medicine and other areas of application, and improved instrumentation for the land surveyor.

Zeiss consumer products—high fashion eyeglass frames and sunglasses, binoculars, sporting glasses and riflescopes—are offered to the U.S. market through ophthalmic dispensers and other retail outlets by another Zeiss subsidiary, Carl Zeiss Optical, Inc. in Petersburg, VA.

The unique capabilities of Carl Zeiss in combining optics, precision mechanics and advanced electronics have paved the way for significant industrial advances in the field of metrology, a science which dates back to man's first need for a formal method of linear measurement. The Industrial Measuring Technology Division of Carl Zeiss, Inc., markets high performance, computer-controlled coordinate measuring machines. Incorporating a unique probing system designed by Zeiss, measurements can be made in the incredible range of millionths of an inch. These machines, used as a quality control tool for cost-effective measurement of precision production parts such as turbine blades or components of an internal combustion engine, are rapidly replacing the time consuming task once required of measuring parts manually with traditional hand-held gauging instruments. Today, Carl Zeiss provides an entire industrial measuring technology product line to serve the needs of diverse major industries, such as automotive, aeronautic computer, defense and energy. This is an example of another Zeiss achievement which advances the state of technology. □

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45	Arnhold and S. Bleichroeder	63	Ernst & Young	188	Melitta
134	Arthur Andersen & Co.	198	Euro Lloyd Travel, Inc.	189	Metallgesellschaft AG
24-25	Audi of America	178	FAG Bearings Corp.	2	Mobil Oil AG
136	BASF Corp.	179	Frankfurt, City of	70	J.P. Morgan
4-5	BMW of North America	68	Frenkel & Co.	102	Norddeutsche Landesbank
124	Baden - Wurttemberg	57	Gerling America Insurance Co.	34-35	NYNEX
81	Bayerische Hypotheken- und Wechsel-Bank	186	German-American Nat'l Congress	BC	OOCL
		58	HLT (Hessen)	133	Price Waterhouse
28	Bayerische Landesbank	3	Haniel	140	Schleicher GmbH & Co.
169	Becker of North America	108	Hapag-Lloyd	192	Schwarze-Wirtz
86	Boehringer Ingelheim	182	Hermes	84	Siemens
37	Budd Company	67	Hessische Landesbank/Helaba	91	Stinnes Corp.
75	Chase Manhattan Bank	113	Hille & Müller	30	Südwestdeutsche Landesbank
93	Commerzbank AG	69	Hoesch	38	TELOS GmbH
171	Coopers & Lybrand	116	Philipp Holzmann, Inc.	194	TRW Ehrenreich
19	DG Bank/Deutsche Genossenschaftsbank	50	INA Bearing Company, Inc.	144	TUV Rheinland of N.A.
		191	Iowa Electric Light & Power	181	Tente Casters
42-43	Daimler-Benz AG	65	Jauch & Hübener	10	Thyssen
122	Deloitte & Touche	107	KPMG Peat Marwick	74	Trumpf
9	Deutsche Bank AG	6&20	K-S Properties	161	UBM Consulting Group
76	Deutsche Bank Capital Corp.	121	Kempinski	14	United Parcel Service/UPS
FC	Deutsche Telekom, Inc.	161	Klockner-Moeller	170	V.A.W. of America
94	Dornier Medical Systems	162	Krupp	128	Westdeutsche Landesbank
12	Dresdner Bank	27	LTU International Airways	92	ZF of North America
175	EM Industries	BC	Lufthansa German Airlines	200	Carl Zeiss, Inc.
174	EMO Trans				

Carl Zeiss and the Fine Art of Vision

c o m m i t m e n t

The finale: the curtain falls. As theatergoers relive the event, it's natural to recall only the bravura performances of the masters. But there is more to the ballet than its stars.

A commitment to excellence on the parts of principals, soloists and corps de ballet is what allows the most proficient artists to maximize their gifts.

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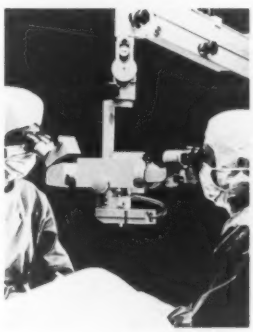

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